

THE
PEW
CHARITABLE TRUSTS

PAYDAY LENDING
IN AMERICA:

Who Borrows, Where They Borrow, and Why

This report series, *Payday Lending in America*, presents original research findings from the Pew Safe Small-Dollar Loans Research Project on how to create a safe and transparent marketplace for those who borrow small sums of money.

www.pewtrusts.org/small-loans

JULY 2012

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

The Safe Small-Dollar Loans Research Project focuses on small-dollar credit products such as payday and automobile title loans, as well as emerging alternatives. The project works to find safe and transparent solutions to meet consumers' immediate financial needs.

PEW CHARITABLE TRUSTS

Susan K. Urahn, managing director

Research and Writing

Nick Bourke
Alex Horowitz
Tara Roche

Publications and Web

Jennifer Peltak
Mark Pinkston
Evan Potler
Carla Uriona

ACKNOWLEDGEMENTS

We would like to thank Shelley Hearne, Steven Abbott, Eleanor Blume, Jeff Chapman, Jennifer V. Doctors, Laura Fahey, Amy Gershkoff, Nicolle Grayson, Andrea Hewitt, Scott Keeter, Samantha Lasky, Barclay Mitchell, Liz Voyles, and Robert Zahradnik for providing valuable input and feedback on the report. We also would like to thank the small-loan borrowers who participated in our survey and focus groups, and the many people who helped us put those groups together.

The report benefited from the insights and expertise of an external reviewer, Alan M. White, professor of law at Valparaiso University. Additionally, survey research expert Mike Mokrzycki provided us with valuable feedback in designing our survey and methodology. Although they have reviewed the report, neither they nor their organizations necessarily endorse its findings or conclusions.

For additional information, visit www.pewtrusts.org/small-loans

This report is intended for educational and informational purposes. References to specific policy makers or companies have been included solely to advance these purposes and do not constitute an endorsement, sponsorship, or recommendation by The Pew Charitable Trusts.

©2012 The Pew Charitable Trusts. All Rights Reserved.

901 E Street NW, 10th Floor
Washington, DC 20004

2005 Market Street, Suite 1700
Philadelphia, PA 19103

Contents

Executive Summary	2
Key Findings.	4
Introduction	6
1. Who Uses Payday Loans?.	8
Exhibit 1: Payday Loan Usage by Demographic	10
Exhibit 2: Payday Loan Borrowing More Common in Cities	12
Exhibit 3: Payday Loan Usage by Geographic Grouping.	12
2. Why Do Borrowers Use Payday Loans?	13
Exhibit 4: Most Borrowers Use Payday Loans for Recurring Expenses	14
3. What Would Borrowers Do Without Payday Loans?	16
Exhibit 5: Alternatives if Payday Loans Were Unavailable	16
4. Does Payday Lending Regulation Affect Usage?	19
Exhibit 6: How States Regulate Payday Lending	21
Exhibit 7: In Restrictive States, 95 of 100 Choose Not to Borrow	22
Exhibit 8: Number of Borrowers per 10,000 Population	23
Exhibit 9: Method of Acquiring Payday Loans by State Law Type	23
Exhibit 10: Payday Loan Storefronts.	24
Exhibit 11: State Laws Are Not Driving Payday Loan Complaints	25
Exhibit 12: How People Obtain Payday Loans.	27
Exhibit 13: Method of Acquiring Payday Loans by Borrower Demographic Group	28
Conclusion	29
Methodology: Opinion Research.	31
Appendix A	35
Exhibit 14: Payday Loan Borrower Demographic Snapshot.	35
Appendix B.	36
Exhibit 15: Logistic Regression Analysis of Likelihood of Payday Loan Usage by Select Demographics.	37
Endnotes	38

Executive Summary

Payday loan borrowers spend approximately \$7.4 billion¹ annually at 20,000 storefronts and hundreds of websites, plus additional sums at a growing number of banks. The loans are a highly controversial form of credit, as borrowers find fast relief but often struggle for months to repay obligations marketed as lasting only weeks.² While proponents argue that payday lending is a vital way to help underserved people solve temporary cash-flow problems, opponents claim that the practice preys on overburdened people with expensive debt that is usually impossible to retire on the borrower's next payday.

Many state officials have acted to curb payday lending. However, there has been little opportunity for federal policy on payday lending until now. Resolving the debate over the ways in which payday loans and lender practices may help or harm borrowers will fall to the Consumer Financial Protection Bureau (CFPB), which Congress recently created and charged with regulating payday lending. Other federal agencies, such as the Federal Deposit Insurance Corporation (FDIC), Office of the

Comptroller of the Currency (OCC), and Federal Trade Commission (FTC), also will have important roles to play as banks and online providers continue to enter the payday loan field.³

Existing data show that, in at least two significant respects, the payday lending market does not function as advertised. First, payday loans are sold as two-week credit products that provide fast cash, but borrowers actually are indebted for an average of five months per year. Second, despite its promise of “short-term” credit, the conventional payday loan business model requires heavy usage to be profitable—often, renewals by borrowers who are unable to repay upon their next payday. These discrepancies raise serious concerns about the current market's ability to provide clear information that enables consumers to make informed decisions.

This report, *Who Borrows, Where They Borrow, and Why*, is the first in Pew's *Payday Lending in America* series. The findings provide policy makers with research to address concerns about small-dollar loans and to promote a safe and

EXECUTIVE SUMMARY

transparent marketplace. In addition to discussing Pew's focus groups, the report presents selected results from a first-ever nationally representative telephone survey of payday borrowers. The report answers six major questions: Who are borrowers,

demographically? How many people are borrowing? How much do they spend? Why do they use payday loans? What other options do they have? And do state regulations reduce payday borrowing or simply drive borrowers online instead?



Key Findings

1 Who Uses Payday Loans? Twelve million American adults use payday loans annually. On average, a borrower takes out eight loans of \$375 each per year and spends \$520 on interest.

Pew's survey found 5.5 percent of adults nationwide have used a payday loan in the past five years, with three-quarters of borrowers using storefront lenders and almost one-quarter borrowing online. State regulatory data show that borrowers take out eight payday loans a year, spending about \$520 on interest with an average loan size of \$375. Overall, 12 million Americans used a storefront or online payday loan in 2010, the most recent year for which substantial data are available.

Most payday loan borrowers are white, female, and are 25 to 44 years old. However, after controlling for other characteristics, there are five groups that have higher odds of having used a payday loan: those without a four-year college degree; home renters; African Americans; those earning below \$40,000 annually; and those who are separated or divorced. It is notable

that, while lower income is associated with a higher likelihood of payday loan usage, other factors can be more predictive of payday borrowing than income. For example, low-income homeowners are less prone to usage than higher-income renters: 8 percent of renters earning \$40,000 to \$100,000 have used payday loans, compared with 6 percent of homeowners earning \$15,000 up to \$40,000.

2 Why Do Borrowers Use Payday Loans? Most borrowers use payday loans to cover ordinary living expenses over the course of months, not unexpected emergencies over the course of weeks. The average borrower is indebted about five months of the year.

Payday loans are often characterized as short-term solutions for unexpected expenses, like a car repair or emergency medical need. However, an average borrower uses eight loans lasting 18 days each, and thus has a payday loan out for five months of the year. Moreover, survey respondents from across the demographic

spectrum clearly indicate that they are using the loans to deal with regular, ongoing living expenses. The first time people took out a payday loan:

- 69 percent used it to cover a recurring expense, such as utilities, credit card bills, rent or mortgage payments, or food;
- 16 percent dealt with an unexpected expense, such as a car repair or emergency medical expense.

3 What Would Borrowers Do Without Payday Loans? If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions.

When presented with a hypothetical situation in which payday loans were unavailable, storefront borrowers would utilize a variety of other options. Eighty-one percent of those who have used a storefront payday loan would cut back on expenses such as food and clothing. Majorities also would delay paying bills, borrow from family or friends, or sell or pawn possessions. The options selected the most often are those that do not involve a financial institution. Forty-four percent report they would take a loan from a bank or credit union, and even fewer would use a credit card (37 percent) or borrow from an employer (17 percent).

4 Does Payday Lending Regulation Affect Usage? In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.

In states with the most stringent regulations, 2.9 percent of adults report payday loan usage in the past five years (including storefronts, online, or other sources). By comparison, overall payday loan usage is 6.3 percent in more moderately regulated states and 6.6 percent in states with the least regulation. Further, payday borrowing from online lenders and other sources varies only slightly among states that have payday lending stores and those that have none. In states where there are no stores, just five out of every 100 would-be borrowers choose to borrow payday loans online or from alternative sources such as employers or banks, while 95 choose not to use them.

Introduction

Deborah is a young mother who works full time as a teacher and is studying for a graduate degree. She has struggled to make ends meet. “It just seems like one thing after another,” she said; “I can’t seem to catch up.” A few years ago, Deborah needed money when she could not afford both her monthly bills and her daughter’s routine vaccinations. Deborah said that she has used student loans, bank loans, and credit cards when she was short on money. When she needed more, she thought she could get help from family or friends, but “I didn’t want to ask somebody for it.” Instead, Deborah borrowed a couple hundred dollars from a payday lender. “I was scared when I went in there, but I needed the money, and I knew it was a fast fix,” she said. Deborah’s loan was due in full on her next payday, but she could not come up with enough extra cash to pay the lump sum and meet her other expenses. So she renewed the loan, paying fees to push the due date to her next payday but receiving no reduction in the principal owed. It took nearly six months of renewals before she had enough money for a payment large enough to eliminate her payday

loan debt. “Once my taxes came in, I just paid it off and walked away,” said Deborah. “I was like ‘I’m done.’”⁴

Like Deborah, a former payday loan borrower in one of Pew’s focus groups, millions have turned to payday lenders when finances are tight, finding fast relief but struggling for months to repay loans that, according to marketing, are supposed to last only weeks. Payday loans are small-dollar credit products that typically range from \$100 to \$500, though may be larger depending on state law; the average loan is about \$375.⁵ Lenders usually charge about \$15 per \$100 borrowed per two weeks (391 percent Annual Percentage Rate or APR).⁶ The loans are secured by a claim to the borrower’s bank account with a post-dated check or electronic debit authorization.

Payday loans are due in full on the borrower’s next payday; yet if the borrower cannot pay off the full loan plus interest, she pays a fee to extend the due date, or pays back the loan but quickly takes out a new one to cover other expenses. The loans do not amortize, so this payment does

not reduce the loan principal owed. For example, a person who borrows \$400 for a \$60 fee for two weeks would have paid approximately \$480 in fees after renewing the loan for four months, but would still owe the original \$400. Most payday loans come from storefront providers with specialized state lending licenses, but similar types of small-dollar loan products are available elsewhere, including from online lenders and banks that offer “deposit advance” loans.⁷

Existing data show there are two clear problems in this market. First, payday loans are sold as two-week credit products that provide fast cash for emergencies in exchange for a fee. But the lump-sum repayment model appears to make it difficult for borrowers to avoid renewal. Pew’s analysis of state and industry data indicates that borrowers are indebted for an average of about five months of the year.⁸ According to one study, 76 percent of these loans, including renewals, are borrowed within two weeks following an existing payday loan’s due date, meaning the borrower could not pay back the loan and make it to the next payday without another loan.⁹ In addition, Pew’s analysis of data from Oklahoma finds that more borrowers use at least 17 loans in a year than use just one.¹⁰

Second, the conventional¹¹ payday loan business model depends upon heavy usage—often, renewals by borrowers who are unable to repay upon their next

payday—for its profitability.¹² Researchers at the Federal Reserve Bank of Kansas City concluded that, “the profitability of payday lenders depends on repeat borrowing.”¹³ According to industry analysts, “In a state with a \$15 per \$100 rate, an operator ... will need a new customer to take out 4 to 5 loans before that customer becomes profitable.”¹⁴ For example, an analysis of North Carolina data found that 73 percent of lender revenue came from borrowers using seven or more loans per year.¹⁵ Despite these realities, payday loans continue to be packaged as short-term or temporary products.

Pew’s research seeks to explore these discrepancies between packaging and reality, and to demonstrate borrower experiences and outcomes. The survey discussed in this report is a first-ever nationally representative telephone poll of payday loan borrowers about their usage, conducted in two parts. Demographic data derive from 33,576 responses, representative of all adult Americans, while information about why borrowers used payday loans and what alternatives they have come from 451 interviews representative of all storefront payday loan borrowers.



PROFILE

Borrower A: Female, white, married, non-parent, disabled, homeowner, high school, age 39, \$28,000

A slight majority of payday loan borrowers are female, and a slight majority of borrowers are also white. Those who are unable to work because of a disability have used a payday loan at higher rates than those who are employed, unemployed, homemakers, students, or retired.

1 Who Uses Payday Loans?

Twelve million American adults use payday loans annually. On average, a borrower takes out eight loans of \$375 each per year and spends \$520 on interest.

The Pew survey found that 5.5 percent¹⁶ of American adults report having used a payday loan in the past five years.¹⁷ In addition, using the most recent available data,¹⁸ we calculate approximately 12 million¹⁹ Americans used a storefront or online payday loan in 2010, a figure that is consistent with the 5.5 percent finding.

Although Pew's survey reveals that borrowing is concentrated among younger, low-to-moderate-income individuals, people of most ages and incomes use payday loans. Importantly, while these findings indicate which individuals are most likely to borrow, they do not imply that a given characteristic *causes* people to use payday loans.

Pew's survey found that borrowers are 52 percent women and 55 percent white; 58 percent rent their homes; 85 percent do not have a four-year college degree; 72 percent have a household income of less than \$40,000; and 52 percent fall in the 25 to 44 age category. (See Appendix A for a complete demographic breakdown of payday loan borrowers.) However, these figures do not necessarily reflect the likelihood of payday loan usage among different demographic groups. For example, while slightly more women use payday loans than men, gender is not a significant predictor of payday loan usage. Similarly, like the general population, most payday loan borrowers are white, but white respondents are less likely to have used a payday loan than people of other races or ethnicities. The results presented in this section are largely consistent with prior research.²⁰

WHAT DO BORROWERS SPEND?

Lenders sell payday loans as a temporary bridge to the next payday, though in reality most borrowers are indebted for much longer than one pay cycle. Payday loan consumers take out an average of eight payday loans a year,²¹ often renewing an existing loan or taking out a new loan within days of repaying the previous one. Data from Florida indicate that borrowers who take at least 12 loans in a year use 63 percent of all payday loans.²² The average loan is about \$375.²³ Three-quarters of payday loans come from storefronts, with an average fee of \$55 per loan, and roughly one-quarter originate online, with an average fee of \$95. Using these figures, we calculate that the average borrower spends about \$520 on interest each year.²⁴

How much borrowers spend on loans depends heavily on the fees permitted by their state. The same \$500 storefront loan would generally cost about \$55 in Florida, \$75 in Nebraska, \$87.50 in Alabama, and \$100 in Texas, even if it were provided by the same national company in all of those states. Previous research has found that lenders tend to charge the maximum permitted in a state.²⁵

For an analysis of how borrowers in each demographic group obtain their loans (i.e., from storefronts versus online), see Exhibit 13 on page 28. For more information on the findings regarding these groups, see our website at www.pewtrusts.org/small-loans.

Which demographic traits best predict loan usage, after controlling for other factors?

Pew researchers developed a logistic regression model to evaluate how certain characteristics relate to usage, while controlling for other factors. Among these characteristics, the odds of payday loan usage are:

57 percent higher for renters than for homeowners;

62 percent higher for those earning less than \$40,000 annually than for those earning more;

82 percent higher for those with some college education or less than for those with a four-year degree or more;

103 percent higher for those who are separated or divorced than for those of all other marital statuses (single, living with a partner, married, or widowed); and

105 percent higher for African Americans than for other races/ethnicities.

For more on the model and the characteristics tested, see Appendix B.

EXHIBIT 1:

PAYDAY LOAN USAGE BY DEMOGRAPHIC

Percentage of Each Subgroup Reporting Payday Loan Usage

Certain demographic groups are more likely than others to have used a payday loan in the past five years.

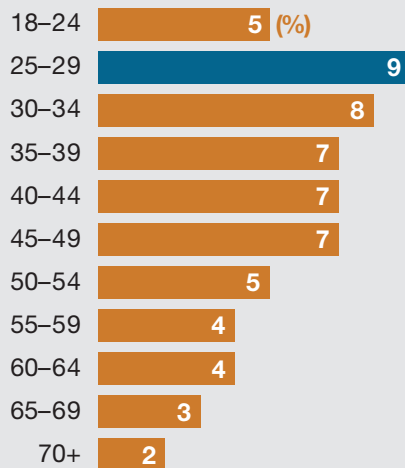
OVERALL

5.5 percent of all adult Americans have used a payday loan.

All adults **5.5** (%)

AGE

9 percent of adults aged 25-29 have used a payday loan.



People ages 25 to 49 have used payday loans at a higher rate than the general population. By contrast, loan use is below average among 18-to-24-year-olds and those age 50 or older. There is relatively little usage by senior citizens, with just 2 percent of those 70 and older having used payday loans.

NOTE: Data represent percentage of adults in each category who report having used a payday loan in the past five years. Results are based on 33,576 interviews conducted from August through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

RENTERS VS. HOMEOWNERS

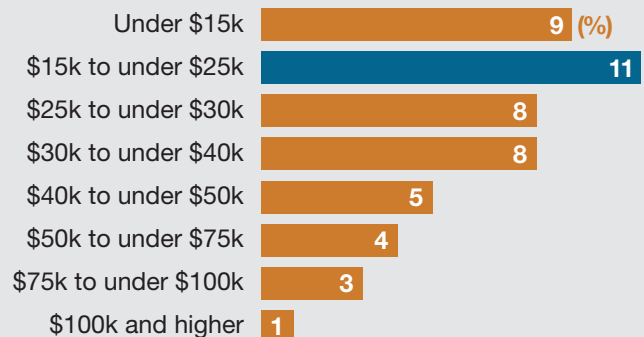
10 percent of renters have used a payday loan.



Renters have used payday loans at more than double the rate of homeowners. This sharp difference in usage between homeowners and renters persists in every age cohort. While payday loan usage is largely concentrated among those ages 25 to 49, among 50-to-69-year-old renters, fully one in 10 has used a payday loan, more than triple the rate for 50-to-69-year-old homeowners. Furthermore, renters' usage of payday loans is far higher than that of homeowners across the income distribution. For example, 8 percent of renters earning \$40,000 to \$100,000 have used payday loans, compared with 6 percent of homeowners earning \$15,000 up to \$40,000.

INCOME

11 percent of those earning \$15,000 up to \$25,000 have used a payday loan.



Respondents with household incomes less than \$40,000 are almost three times as likely to have used payday loans as respondents with household incomes of \$50,000 or more. Respondents from every income group report using payday loans, with loan usage the highest (11 percent) for those earning \$15,000 up to \$25,000 and lowest (1 percent) for those earning over \$100,000. Except for those earning under \$15,000, the relationship between income and payday loan usage is an inverse one, with borrowing decreasing as income increases.

EXHIBIT 1:

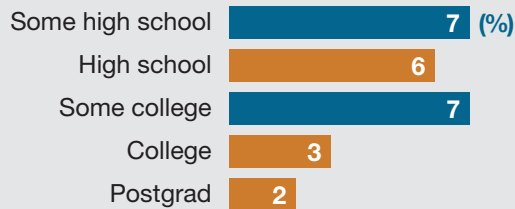
PAYDAY LOAN USAGE BY DEMOGRAPHIC

Percentage of Each Subgroup Reporting Payday Loan Usage

(CONTINUED)

EDUCATION STATUS

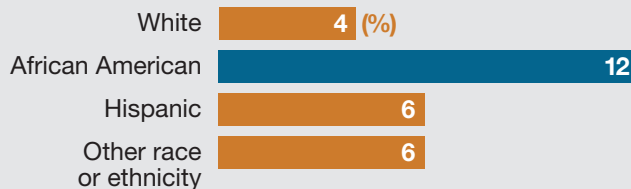
7 percent of those with some high school or some college have used a payday loan.



Those without a four-year college degree are much more likely to have used payday loans than those who have a degree. But among those without a four-year degree, further differences in education level do not correspond with significant differences in payday loan usage.

RACE AND ETHNICITY

12 percent of African Americans have used a payday loan.



African American respondents are more than twice as likely as others to have used a payday loan but make up less than a quarter of all payday borrowers, as compared with whites who comprise 55 percent of all borrowers.

PARENTAL STATUS

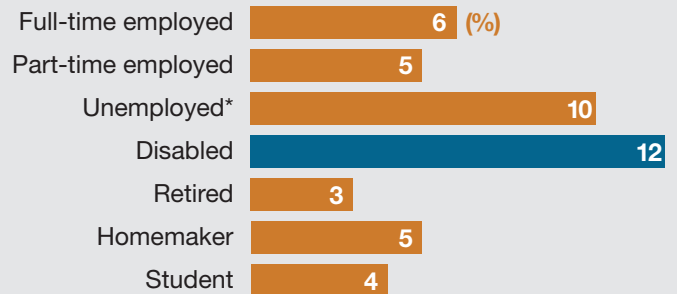
8 percent of parents have used a payday loan.



Parents are more likely to have used payday loans than those who are not parents, especially among those earning less than \$50,000. Twelve percent of parents earning less than \$50,000 have used a payday loan, compared with just 4 percent of parents earning \$50,000 or more.

EMPLOYMENT STATUS

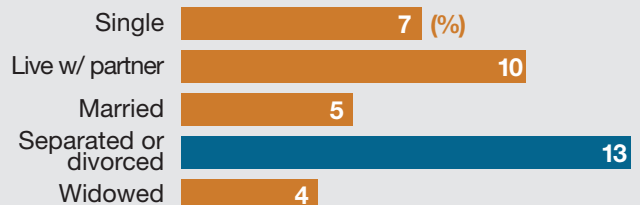
12 percent of those who are disabled have used a payday loan.



Those who are currently disabled or unemployed have used payday loans at the highest rates in the past five years, although it is possible that they were employed at the time they borrowed. However, those who are employed make up a majority of all payday borrowers, and an income stream is a requirement for obtaining a payday loan.

MARITAL STATUS

13 percent of those who are separated or divorced have used a payday loan.



Those who are separated or divorced are most likely to have borrowed. Thirteen percent of separated or divorced individuals report payday loan usage, a rate twice that of all other respondents.

* Payday lenders generally will lend only to someone with an income stream. It is possible that unemployed people were employed at the time of their last payday loan, or they are receiving a loan based on some other form of income, such as a benefits check.

NOTE: Data represent percentage of adults in each category who report having used a payday loan in the past five years. Results are based on 33,576 interviews conducted from August through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

PAYDAY LOAN USAGE BY GEOGRAPHY

Pew's survey revealed that payday loan usage is highest in parts of the South and Midwest Census regions (e.g., 13 percent of adults have borrowed in Oklahoma and 11 percent in Missouri, two of the leading payday loan states) and is significantly higher in urban areas as compared with the suburbs. A major factor causing the significant variation in payday loan usage by Census region and division is the difference in how states regulate payday loans, detailed on page 20.

EXHIBIT 2:

PAYDAY LOAN BORROWING MORE COMMON IN CITIES

7 percent of those living in cities have used a payday loan.

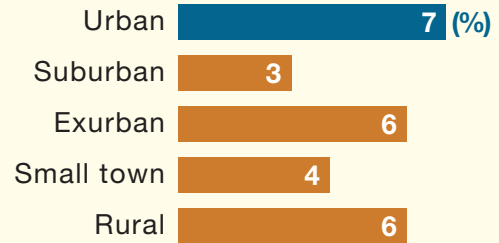
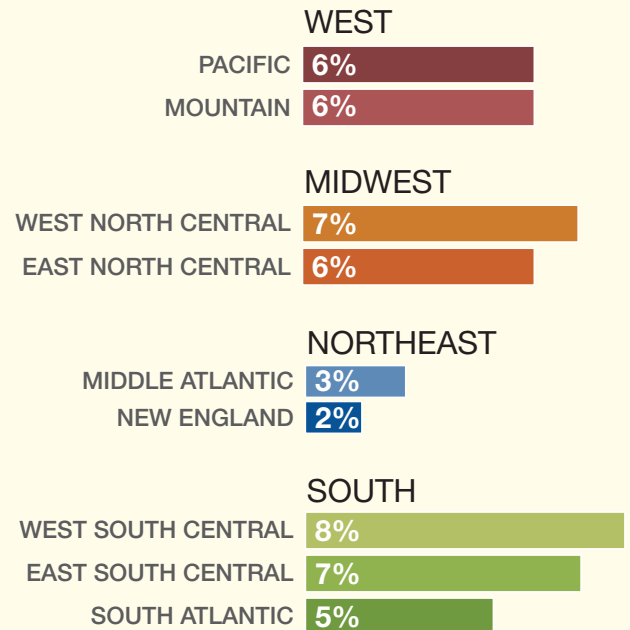
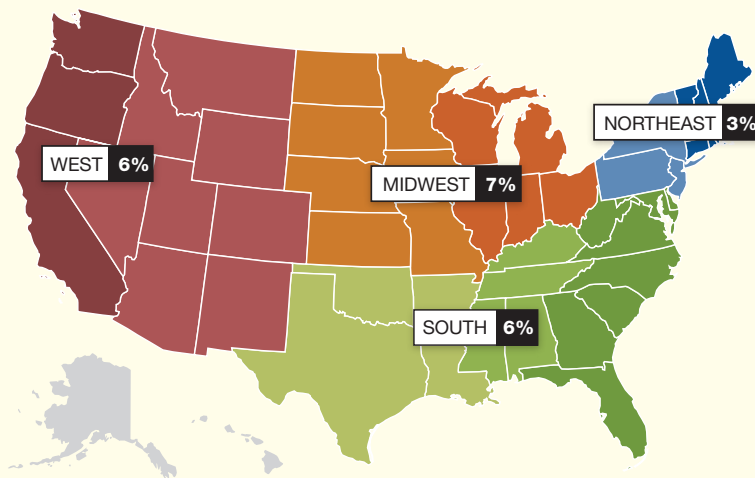


EXHIBIT 3:

PAYDAY LOAN USAGE BY GEOGRAPHIC GROUPING



NOTES: Exhibit 2: **Exurban** (Inside a Suburban County of the MSA); **Small town** (In an MSA that has no Center City); **Rural** (Not in an MSA), **Urban** (In the Center City of an MSA), **Suburban** (Outside the Center City of an MSA, but inside the county containing the Center City). The Office of Management and Budget classifies geographic areas into Metropolitan and Micropolitan Statistical Areas (MSA), and these groupings are used by the U.S. Census Bureau. The higher usage in cities is consistent with previous research demonstrating that, historically, payday lending has been tied to relatively densely populated areas, as described in Robert Mayer's *Quick Cash*. This rate is significantly higher than the 3 percent of suburban-area residents who report having used payday loans. Data represent payday loan usage by geographic area in the contiguous United States.

Exhibit 3: Regions and divisions are those used by the U.S. Census Bureau. Data represent payday loan usage by geographic area in the contiguous United States. For state-level data, see www.pewtrusts.org/small-loans.

No surveys were conducted in AK and HI.

Results from Exhibits 3 and 4 are based on 33,576 interviews conducted from August to December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

2 Why Do Borrowers Use Payday Loans?

Most borrowers use payday loans to cover ordinary living expenses over the course of months, not unexpected emergencies over the course of weeks. The average borrower is indebted about five months of the year.

Pew's survey asked borrowers why they first took out a payday loan. As illustrated in Exhibit 4, borrowers' initial reasons stem from an ongoing need for income, rather than a short-term need to cover an unexpected expense.²⁶ Four times more storefront borrowers used their first payday loans for a recurring expense (69 percent) than for an unexpected expense (16 percent).

These findings provide a sharp contrast with the conventional image of payday

loans, which are advertised as short-term, small-dollar credit intended for emergency or special use. Industry, advocates, and regulators all suggest that using payday loans for recurring expenses is not an effective use of high-cost credit and that, rather, such credit should be used to cover unexpected expenses for a short period of time.²⁷ Yet, previous research, as well as discussions with industry leaders, and state-level reports, all make clear that a typical borrower uses payday loans many times per year,²⁸ and much of this borrowing comes in relatively quick succession once someone begins using payday loans.²⁹ Pew's analysis of existing data found that an average borrower is in payday loan debt for five months per year, using eight loans that last 18 days each.³⁰



PROFILE

Borrower B: Male, Hispanic, divorced, non-parent, full-time employed, renter, associate's degree, age 44, \$17,000

Divorced or separated men are more likely to have used a payday loan than their female counterparts. Renters are three times more likely to have used a payday loan than homeowners, while those earning \$15,000-\$25,000 are the most likely to have used a payday loan.

■ **Regular, Ongoing Expenses**

Female borrower, Chicago:
 “I was behind on my mortgage and cable bill.”

Male borrower, Chicago:
 “Just need to get to the next paycheck. And I need, you know, either pay the bill to keep the lights on, or need some food, or whatever it is.”

Female borrower, San Francisco:
 “If I have bills to pay, or say I need food on the table, I am going.”

Male borrower, San Francisco:
 “Well, I was a little short and was thinking I could use some more money and I was at the ATM actually, and it was there, offering me a direct deposit advance. So, I thought I would try it.”

■ **Unexpected Emergency/Expense**

Male borrower, New York:
 “I got mine because my son got in a car accident.”

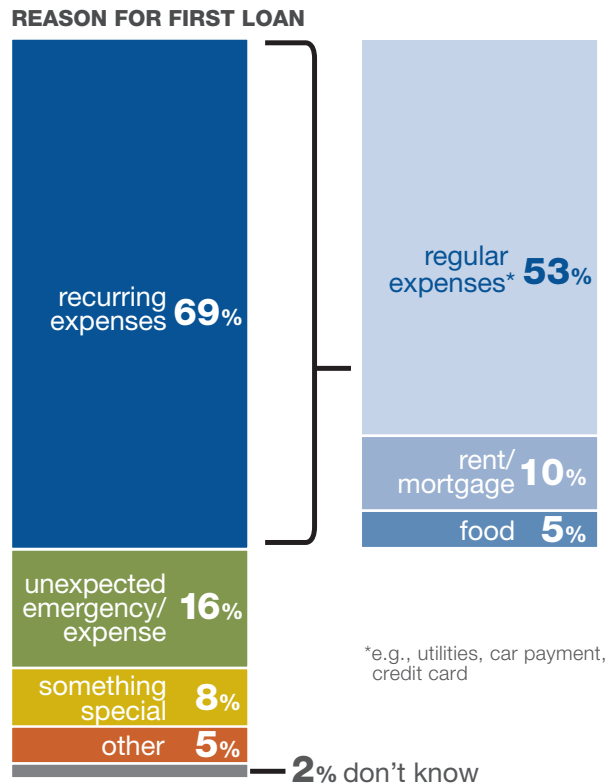
Male borrower, New York:
 “I had to get money for my car to get fixed.”

■ **Something Special**

Female borrower, San Francisco:
 “It was the holidays and I just needed some extra cash to get gifts and help out with Christmas dinner and do my part.”

Male borrower, San Francisco:
 “It was a frivolous expense. Some friends wanted us to accompany them on an out-of-town trip... and I thought, ‘why not?’”

EXHIBIT 4:
MOST BORROWERS USE PAYDAY LOANS FOR RECURRING EXPENSES



NOTES: Data represent percentage of borrowers who reported the reason for using their first payday loan based on 451 interviews. December 2011 - March 2012. Sampling error for the full-length survey of storefront payday loan borrowers is +/- 4.6 percentage points.

Survey participants were asked: Thinking back now to (that FIRST/the) time you took out a (online payday loan/payday loan/auto title loan), which of the following best describes what specifically you needed the money for?

- 1 To pay rent or a mortgage
- 2 To pay for food and groceries
- 3 To pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs
- 4 To pay an unexpected expense, such as a car repair or emergency medical expense
- 5 To pay for something special, such as a vacation, entertainment, or gifts
- 6 (Do not read) Other (specify)

The combined results for “Recurring Expenses” include Regular Expense (53 percent), Rent or Mortgage (10 percent), and Food (5 percent) and add to 69 rather than the expected 68 because of rounding decimals. The response options were randomized in this and other survey questions, so the order in which the respondent heard them varied to eliminate order bias.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

PAYDAY LOAN MARKETING VS. PRACTICE

Payday loans are frequently described as short-term credit for unexpected expenses, and marketing materials sometimes inform borrowers that payday loans are not intended for long-term use.³¹ The industry advertises this small-dollar form of credit as a product that offers borrowers “access to a financial option intended to cover small, often unexpected, expenses,” but states that a payday loan “is not meant to be a long-term solution.”³² A large payday lender warns in its direct mail advertisements: “Short-term loans are not intended to be long-term financial solutions.”³³ Another warns: “Payday advances should be used for short-term financial needs only, not as a long-term financial solution.”³⁴

Despite these warnings, repeat borrowing is the norm. Prior research indicates that borrowers are indebted for an average of five to seven months of the year.³⁵ As a report by the Federal Reserve Bank of Kansas City Economic Research Department concluded, “The profitability of payday lenders depends on repeat borrowing.”³⁶

The dependence on repeat borrowing is illustrated by the reaction of payday lenders to a recent Washington State law limiting borrowers to eight loans per year. The largest storefront lender in the United States “decided to close an additional 30 centers in the State of Washington where changes in the law there have greatly affected our ability to operate profitably in that state.”³⁷ Similarly, according to industry analysts, “In a state with a \$15 per \$100 rate, an operator ... will need a new customer to take out 4 to 5 loans before that customer becomes profitable.”³⁸

The industry’s stated best practices include limiting rollovers to four per person (or the state maximum) and providing extended repayment plans to borrowers who are unable to repay their loan within the original term.³⁹ Despite the promotion of these standards, marketing practices differ greatly. One key area of inconsistency is the practice among lenders of offering incentives to encourage habitual loan usage, such as discounts for repeat borrowing and referral bonuses.⁴⁰ As an example, one of the largest online payday lenders, which is affiliated with the largest storefront lender, offers a “Preferred Member Bonus” (Silver Status after five payday loans, Gold Status after 10 payday loans, and Platinum Status after 15 payday loans).⁴¹



PROFILE

Borrower C: Female, African American, married, parent, part-time employed, renter, some college, age 28, \$32,000

African Americans are more likely than people of other races to have used a payday loan. People ages 25-29 are more likely to have used payday loans than those in any other age group. Parents are much more likely than non-parents to have used a payday loan, regardless of marital status.

3 What Would Borrowers Do Without Payday Loans?

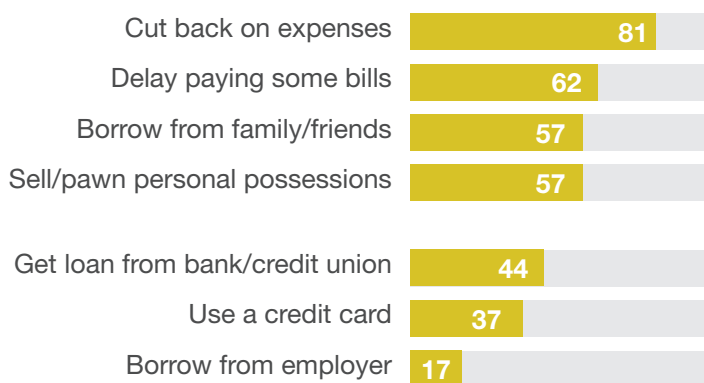
If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions.

Even though most borrowers use payday loans for recurring expenses, rather than for emergencies, survey respondents indicated they would use a variety of

options to deal with those needs if payday loans were no longer available. In general, borrowers are more likely to choose options—such as adjusting their budgets, delaying bills, selling or pawning personal items, or borrowing from family or friends—that do not connect them to a formal institution. Eighty-one percent of payday borrowers say they would cut back on expenses if payday loans were unavailable.

EXHIBIT 5:

ALTERNATIVES IF PAYDAY LOANS WERE UNAVAILABLE



Borrowers are more likely to choose options that do not connect them to a formal institution.

NOTES: Data represent percentage of borrowers who would use each of these strategies if payday loans were unavailable, based on 451 interviews, December 2011 to March 2012.

Survey participants were asked: "I'm going to read you several options. For each, tell me whether you would use this option if you were short on cash and short-term loans of any kind no longer existed. How about (method)? Would you use this option or not?" The "borrow from employer" item was only asked of employed respondents.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

WHAT WOULD BORROWERS DO WITHOUT PAYDAY LOANS?

These survey findings are consistent with tactics described by former payday loan borrowers in a focus group Pew conducted in late 2011 near Manchester, New Hampshire, to find out what residents are doing now that there are no longer storefront payday lenders there. In that group, payday loan borrowers discussed various strategies they use in place of payday loans, such as re-budgeting, prioritizing bills, pawning or selling belongings, borrowing from family members, or, as one borrower stated, working out “payment plans with utility companies.” Another borrower discussed prioritizing money: “I budget. I do my best, but the main thing that has to get paid is that mortgage . . . I pay that mortgage, I pay my car, I pay my insurance, and whatever is left over, that’s what everything else gets paid with.”

While a majority of surveyed borrowers said they would not take out a loan from a bank or credit union, many focus group participants throughout the country expressed that they would rather borrow from a bank or a credit union than from a payday lender if that option were available to them. The fact that a majority of survey respondents failed to list banks or credit unions as options may reflect an expectation, demonstrated among many focus group members, that they would not be approved for a loan.

Similarly, the fact that most survey respondents would not use credit cards

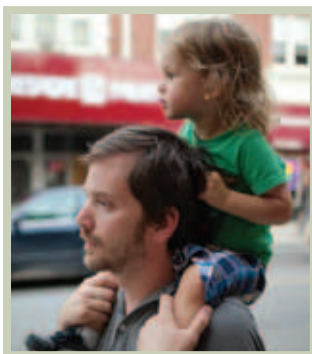
may reflect a sentiment that those products are not available to them. Most, though not all, focus group participants nationwide indicated that they had maxed out their credit cards or believed they would not qualify. The reluctance to view credit cards as an alternative also may stem from confusion among some borrowers about whether the interest rate on a credit card is higher or lower than the interest rate on a payday loan. On several occasions, borrowers in focus groups equated the simple interest rate (e.g., 15 percent for a loan with a \$15 per \$100 fee for two weeks) with the Annual Percentage Rate disclosed for a credit card (which might be 15 percent on an annual basis). For example, a borrower from Alabama stated: “Because the interest on . . . some credit cards [is] 23.99 percent. So if you go charge \$300, and then you don’t pay that \$300 off at the end of the month . . . they’re going to tack that 23.99 percent on to it, so you’re going to still be paying more than you would if you had to [get a payday loan].”

Previous surveys have found similar results to Pew’s findings about payday loan alternatives. A study of former storefront payday loan borrowers in North Carolina found households have other ways to cope with cash shortfalls. For example, borrowers who experienced a shortfall within the previous three years chose instead to delay expenses (52 percent), use savings (44 percent), or borrow from family or friends (42 percent).⁴² A study of

WHAT WOULD BORROWERS DO WITHOUT PAYDAY LOANS?

California payday loan borrowers found that of those who decided not to take out a payday loan explicitly because of the interest rate or fee, 47 percent chose to borrow from family or friends and 26 percent elected to wait until payday. In addition, for borrowers who were unable to obtain the full amount they needed from a payday lender, most chose to

borrow the additional amount from family or friends.⁴³ Another survey of low- to moderate-income people in parts of Texas revealed that while 23 percent had used a payday loan, far more (60 percent) had borrowed from family or friends. Among payday loan borrowers in that study, 45 percent indicated they also borrowed from family or friends.⁴⁴



PROFILE

Borrower D: Male, white, separated, parent, full-time employed, renter, associate's degree, age 32, \$41,000

Separated people are far more likely to have used a payday loan than those of any other marital status. People who do not have a four-year college degree are much more likely to have used a payday loan than college graduates.

4 Does Payday Lending Regulation Affect Usage?

In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.

Modern payday loans owe their existence to efforts, mostly in the 1990s, to create custom exemptions to state laws that otherwise

would prohibit such small-dollar loans or apply usury interest rate caps. Since then, the wisdom of allowing payday lending has been a hotly contested issue among state policy makers and stakeholders. States have deployed a variety of strategies designed to prohibit, control, or enable this form of small-dollar credit.

EXAMPLES OF STATE LAW TYPES

MISSOURI (PERMISSIVE)

Missouri permits single-repayment payday loans with finance charges and interest not to exceed 75 percent of the borrowed principal. The 2011 payday lending report from Missouri's Division of Finance cites a fee of \$52.45 for a 14-day loan of \$307.56 (444.61 percent APR).⁴⁵ Payday loans are available for up to \$500.

Incidence: 9.7 percent storefront, 1.5 percent online

FLORIDA (HYBRID)

Florida permits single-repayment payday loans with fees of 10 percent of the borrowed principal, along with a \$5 fee for borrower verification with a state database of payday loan users. Payday loans are available for up to \$500 and each borrower may have out only one payday loan at any given time.

Incidence: 6.6 percent storefront, 0.6 percent online

GEORGIA (RESTRICTIVE)

Georgia state statute prohibits payday lending in most forms. As in other jurisdictions, many banks and credit unions are exempt from the restriction on payday lending in the state.

Incidence: 1.9 percent storefront, 0.5 percent online

In the past decade, some states—most recently including Arizona, Arkansas, Montana, and New Hampshire—have revived consumer protections and rolled back laws that authorized payday loans. These states have reimposed usury interest rate caps or discontinued payday lenders’ exemptions from these usury limits. Other states have limited the number of high-cost loans or renewals that a lender may offer to an individual, in an attempt to enhance borrowers’ ability to repay debts in a timely fashion.⁴⁶

Following a thorough review, Pew identified three categories of state payday loan regulation. (See Exhibit 6 for a complete breakdown of the states. See www.pewtrusts.org/small-loans for a compilation of relevant laws by state and a short history of payday lending law.)

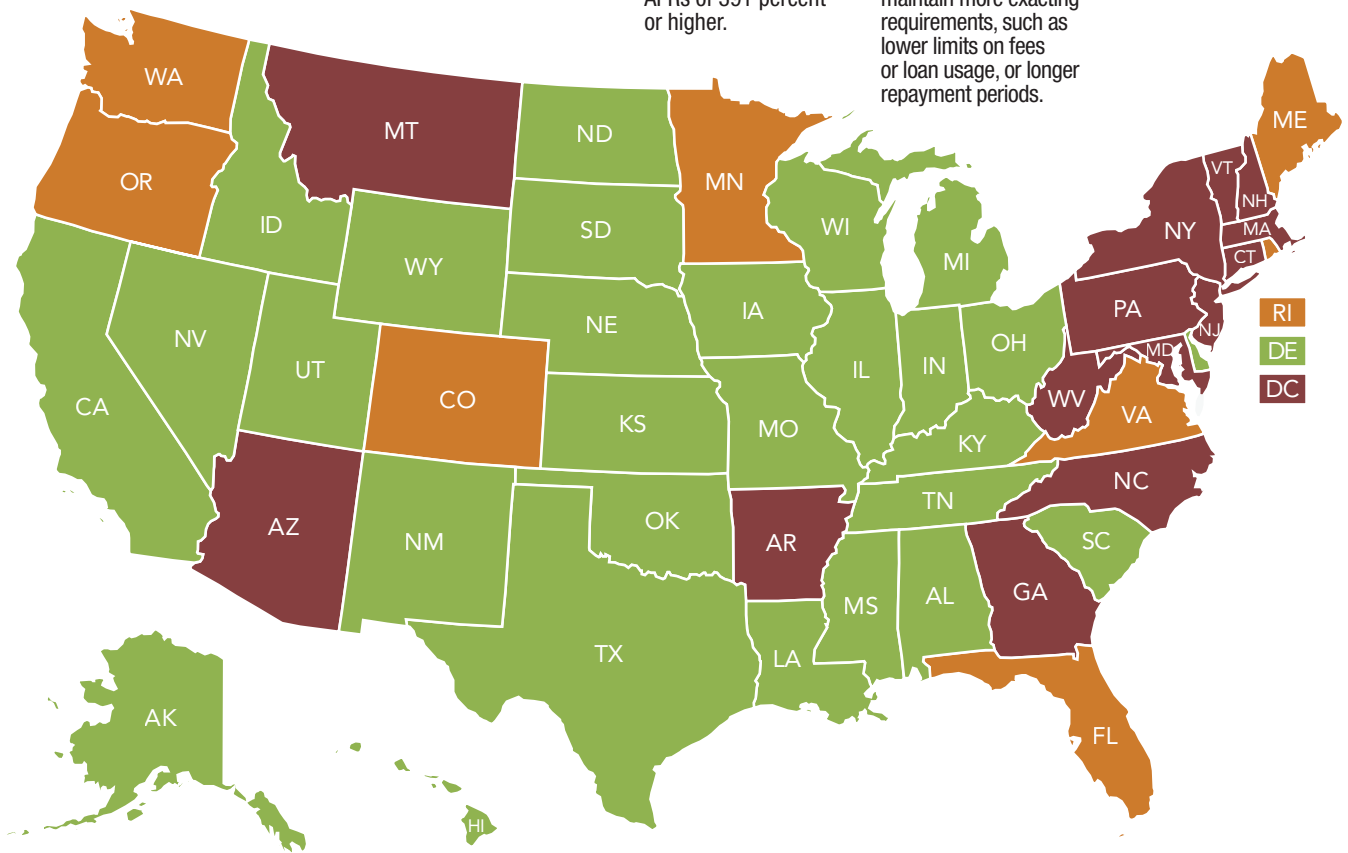
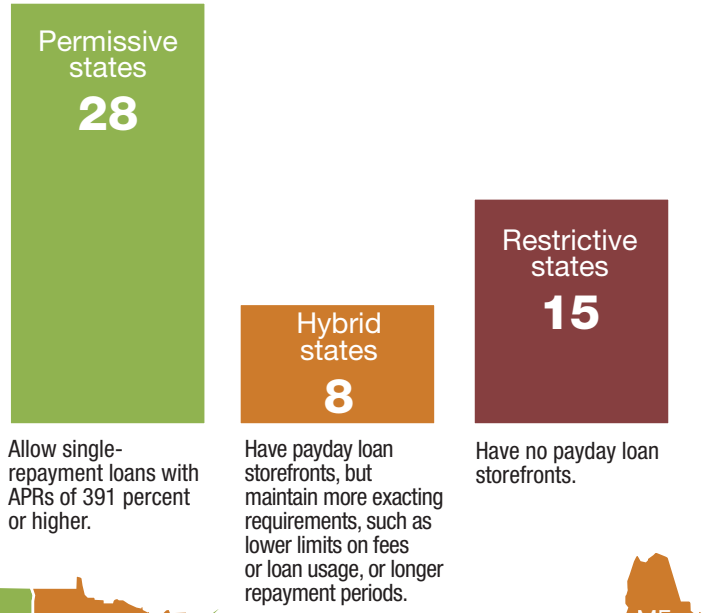
■ **Permissive states are the least regulated and allow initial fees of 15 percent of the borrowed principal or higher.** Most of these states have some regulations, but allow for payday loans due in full on a borrower’s next payday with Annual Percentage Rates (APRs) usually in the range of 391 to 521 percent (\$15 to \$20 per \$100 borrowed per two weeks). Payday loan storefronts are readily available to borrowers located in these states.⁴⁷ Most Americans—55 percent—live in the 28 Permissive states.

■ **Hybrid states have relatively more exacting requirements than Permissive states,** with at least one of the following three forms of regulation: (1) rate caps, usually around 10 percent of the borrowed principal, which are lower than most states but still permit loans to be issued with triple-digit APRs; (2) restrictions on the number of loans per borrower, such as a maximum of eight loans per borrower per year; or (3) allowing borrowers multiple pay periods to repay loans. Storefronts that offer payday loans exist in substantial numbers in these states,⁴⁸ though the market may be more consolidated and per-store loan volume may be higher here than in less restrictive states.⁴⁹ Sixteen percent of Americans live in the eight Hybrid states.

■ **Restrictive states either do not permit payday lending or have price caps low enough to eliminate payday lending in the state.** This rate cap often is 36 percent APR. Generally, payday loan storefronts are not found in these states. This category includes states where deferred presentment transactions (post-dated checks) are not authorized, are not specifically exempted from general state laws on usury, or are explicitly prohibited by state statute. Twenty-nine percent of Americans live in the 14 states and the District of Columbia that have a Restrictive payday loan regulatory structure.

**EXHIBIT 6:
HOW STATES
REGULATE
PAYDAY LENDING**

States have deployed a variety of strategies designed to prohibit, control, or enable this form of small-dollar credit.



SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

Payday Lending Regulation Not Leading to Increased Online Borrowing

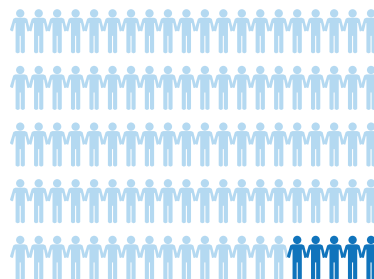
A key issue being discussed in state legislatures is whether restricting storefront payday lenders will lead borrowers to obtain loans from the Internet or other sources instead.⁵⁰ Consumer advocates⁵¹ and some storefront lenders⁵² have warned that other forms of lending, particularly online payday lending, could harm borrowers because they often occur outside the reach of state regulators. (Pew has seen evidence of fraud, abuse, and other problems with online payday lending, and will explore these later in this report series.)

However, Pew found that in Restrictive states, payday loan usage from all sources combined is far lower as compared with other states (see Exhibit 8).⁵³ Storefront payday loan usage is 75 percent lower in Restrictive than in Permissive states,⁵⁴ while online and other payday loan usage is only slightly higher (this difference is not statistically significant). Thus, the vast majority of would-be storefront borrowers in Restrictive states are not going online or to other providers to obtain payday loans instead.

Our data show that, in states that enact strong legal protections, the result is a large net decrease in payday loan usage (see page 23).

EXHIBIT 7:

In states that restrict storefront payday lending, 95 of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere.



SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

- Restrictive payday loan laws lead to 393 fewer storefront borrowers per 10,000 people;
- Of these, just 21 (5 percent) go online or elsewhere to get a payday loan; and
- The remaining 372 (95 percent) do not use payday loans.

In other words, in states that restrict storefront payday lending, 95 of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere.

PAYDAY BORROWING FAR LOWER IN RESTRICTIVE STATES THAN IN PERMISSIVE STATES

There is significantly less payday loan usage in states with strong legal protections because most people are not getting payday loans from the Internet or other sources instead. Although online payday lending and other sources may continue to experience substantial growth in coming years, these data give no indication that regulation of payday loan storefronts would fuel this growth. While online borrowing often is discussed as a problem in states without storefronts, it is nearly as prevalent in states with payday loan stores. In Permissive states, fully one-third of online borrowers also have borrowed from stores, choosing both methods rather than one or the other.

EXHIBIT 8: NUMBER OF BORROWERS PER 10,000 POPULATION

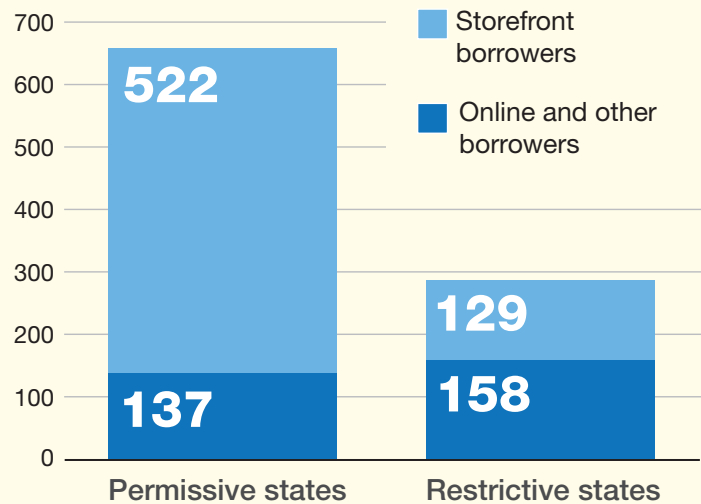


EXHIBIT 9: METHOD OF ACQUIRING PAYDAY LOANS BY STATE LAW TYPE

Percentage of adults reporting payday loan usage in the past five years

	BORROW FROM STOREFRONT ONLY	BORROW FROM ONLINE OR OTHER*	NUMBER OF INTERVIEWS
National	4.01%	1.48%	33,576
Permissive states	5.22%	1.37%	17,881
Hybrid states	5.06%	1.28%	5,565
Restrictive states	1.29%	1.58%	10,130

NOTES: *Online or other represents all borrowers who have indicated online usage (including those who have borrowed both online *and* from a storefront), plus usage from other lenders that may include banks, credit unions, or employers, among others. Results are reported to two decimal places, but this reporting is not intended to imply such a detailed level of precision. Rather, two decimal places are used in order to avoid inaccurate calculations between groupings that could be caused by rounding. Because of sampling error, it is possible that the true level of usage in any of these groupings is slightly higher or lower.

Restrictive states are those that have no payday loan storefronts. Permissive states allow single-repayment loans with APRs of 391 percent or higher. Hybrid states have payday loan storefronts, but maintain more exacting requirements, such as lower limits on fees or loan usage, or longer repayment periods.

Data represent percentage of adults in each category who report having used a payday loan in the past five years. Results are based on 33,576 interviews conducted from August 2011 through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

This analysis makes an evidence-based assumption backed by strong empirical data that inherent demand for payday loans is similar in Restrictive and Permissive states. Store counts from 2006 in the four states that have most recently adopted a Restrictive regulatory strategy after previously being Permissive—Arkansas, Arizona, Montana, and New Hampshire—show a similar number of stores per capita as in the other then-Permissive states: 5.5 percent fewer stores (0.64 fewer stores) per 100,000 residents in 2006 than their counterparts that remain Permissive (see Exhibit 10).⁵⁵ This fairly small difference in payday lenders per capita suggests there is not large variation between these two state groupings in demand for payday loans.⁵⁶ Other Restrictive states, such as North Carolina and Georgia, that were previously Permissive, also had heavy payday loan activity before changing their laws.⁵⁷

EXHIBIT 10:

PAYDAY LOAN STOREFRONTS

STATE LAW TYPE	STOREFRONTS PER 100,000 RESIDENTS IN 2006
PERMISSIVE IN 2012 (WERE PERMISSIVE IN 2006)	11.57
RESTRICTIVE IN 2012 (WERE PERMISSIVE IN 2006)	10.93

NOTES: These figures are based on our analysis of state-by-state storefront data from Steven Graves and Christopher Peterson. Restrictive states are those that have no payday loan storefronts. Permissive states allow single-repayment loans with APRs of 391 percent or higher.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012; Graves and Peterson (2008).

Pew also conducted a logistic regression analysis to examine the effect of state law type on the odds of payday borrowing, controlling for borrower demographic characteristics. The findings are that the odds of payday loan usage for people who live in a Permissive or Hybrid state are 169 percent higher than for those who live in a Restrictive state, meaning a person's state of residence is a highly significant factor in predicting payday loan usage, even after controlling for borrower demographics.

To examine whether these data were considerably impacted by changes in state laws during the period of inquiry in our survey, Pew compared incidence in states that changed their laws during the past five years and those that did not.⁵⁸ There was relatively little difference in incidence of payday loan usage between states that had Restrictive regulation prior to 2007 (2.93 percent) and those five states that implemented Restrictive regulation after January 2007 (2.46 percent). Usage rates are similarly close for states with Hybrid regulation prior to 2007 (6.14 percent) and the five states that implemented Hybrid regulation in 2007 or later (6.43 percent).

Prior research has found “no evidence that prohibitions and price caps on one AFS (Alternative Financial Services) product lead consumers to use other AFS products.”⁵⁹ Our research builds on that finding, revealing that the vast majority of would-be borrowers do not even substitute a new method (using the Internet instead of a storefront) to obtain the same AFS product, which in this case is a payday loan.⁶⁰

Payday Lending Regulation Not Driving Increase in Borrower Complaints

Another issue that state legislators and regulators have considered is whether payday lending restrictions could be driving an increase in borrower complaints.⁶¹

Consumer advocates also have been concerned that an increase in complaints may be driven by online lenders.⁶²

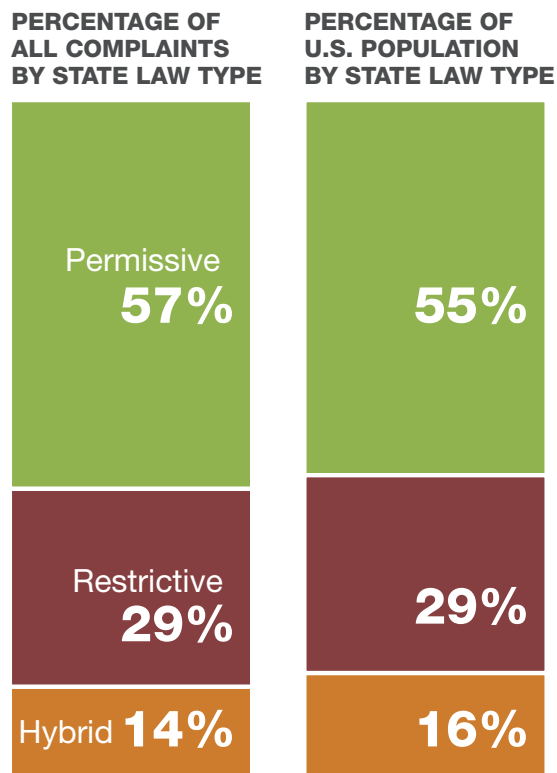
Given that online borrowing is nearly as prevalent in Permissive states (1.08 percent) as in Restrictive ones (1.21 percent), the rate of complaints increasing more in one type of state than another seems unlikely.

The Better Business Bureau reports that complaints against payday lenders are on the rise.⁶³ While online borrowing generally may indeed be driving this increase, there is no indication that the increase is attributable to efforts to regulate storefront payday lending. As shown in Exhibit 11, Pew's analysis of the complaints received by the Better Business Bureau in 2011 finds state regulations are not driving complaints against payday lenders. Twenty-nine percent of all complaints against payday lenders were filed by residents of Restrictive states, identical to the 29 percent of Americans who live in those states. Similarly, 55 percent of Americans live in Permissive states, and they filed 57 percent of complaints against payday

EXHIBIT 11:

STATE LAWS ARE NOT DRIVING PAYDAY LOAN COMPLAINTS

The percentage of complaints against payday lenders received by the Better Business Bureau in each state law grouping closely mirrors the percentage of the population living in those states, suggesting that regulation is not driving complaints.



NOTE: Complaints are those received by the Better Business Bureau about payday lenders in 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012; Better Business Bureau.

lenders. Sixteen percent of the population lives in Hybrid states, and they filed 14 percent of payday lending complaints.

More evidence that complaints are not driven by consumer protections

comes from Washington State, where complaints have been increasing, but the increase does not coincide with the recent change from a Permissive to a Hybrid regulatory model. Complaints increased 76 percent from 2008 to 2009, when there was no change in the law, and 50 percent from 2009 to 2010,

when a change in the law took place.⁶⁴ Similarly, data Pew collected from state regulators show that from 2009 to 2011, Arkansas (Restrictive) had a 128 percent increase in complaints, Maine (Hybrid) had a 52 percent increase, and Missouri (Permissive) had a 107 percent increase.⁶⁵

FORMER BORROWERS SPEAK ABOUT THE CHOICE BETWEEN STOREFRONT AND ONLINE

During a focus group in New Hampshire, former storefront payday loan borrowers dismissed the online option:

“I won’t leave my information there.”

“There’s no face-to-face contact ... [I]f my identity was to be stolen, well who stole it?”

“It’s too risky, in my opinion.”

“With the identity theft the way it is ... who’s going to see it?”

“I’m not going to put [my] information out there.”

Another former borrower noted that she had used online payday loans in New Hampshire when storefronts were still present, in order to pay off her storefront payday loans:

“I had to come up with money [when] my husband was out of work, and I actually was up to \$900 [in storefront payday loan debt] ... My entire check was gone the next two weeks, so that’s when I went to the online ones ... And then after I did the online ones, and got in that loop, and got stuck in there, I went back to the store again, and, yeah, it got bad. And my [checking] account ended up pretty negative. I had to close it out totally.”

NOTE: The focus group comprised only those people who had taken payday loans from storefronts before a recent New Hampshire law eliminated storefront payday lending.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

WHERE DO BORROWERS GET PAYDAY LOANS?

Pew's survey shows that retail storefronts are the exclusive source of payday loans for nearly three out of every four borrowers, while only one in six borrowers reports having used online providers exclusively (see Exhibit 12). About one in 10 borrowers has used both storefront and online providers or other types of providers, which may include banks or employers.⁶⁶

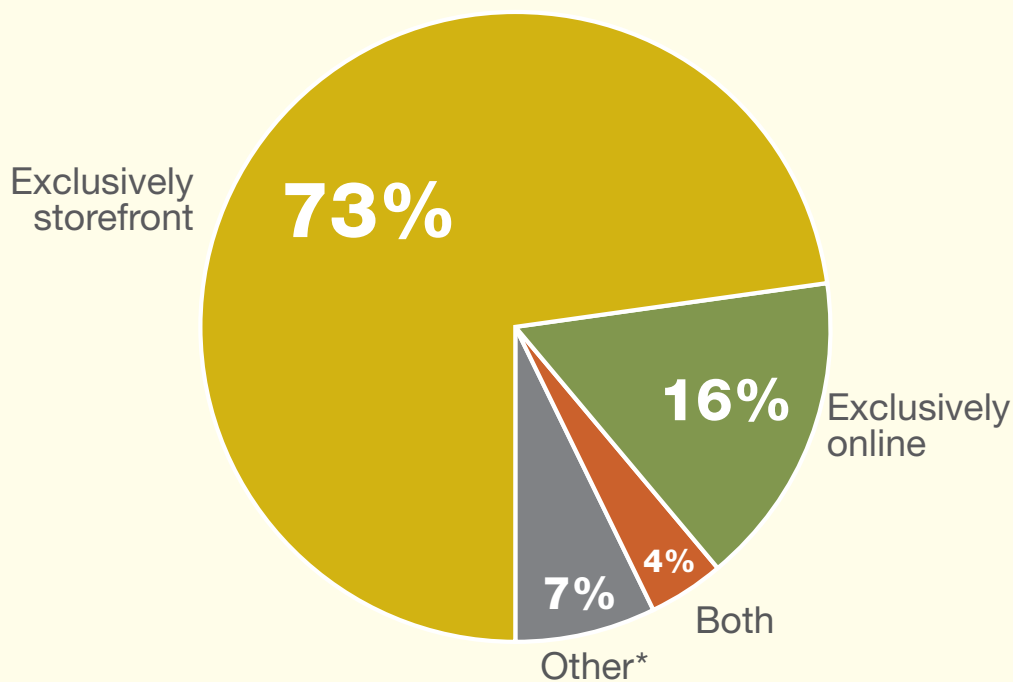
While the overwhelming majority of borrowers use storefronts to get payday loans, certain groups are more likely than others to use online lenders (see Exhibit 13). Those who most often go online for loans tend to be younger, have

incomes above \$50,000, and have a college degree (for example, 41 percent of payday loan borrowers with a college degree used online lenders, and 66 percent used storefront lenders). These are the groups that use the Internet at higher rates generally throughout the population.⁶⁷

The groups that are heavily skewed toward storefront borrowing are older, do not have a college degree, and have incomes below \$50,000. White borrowers are especially likely to borrow from storefront lenders, as are disabled borrowers.

EXHIBIT 12:

HOW PEOPLE OBTAIN PAYDAY LOANS



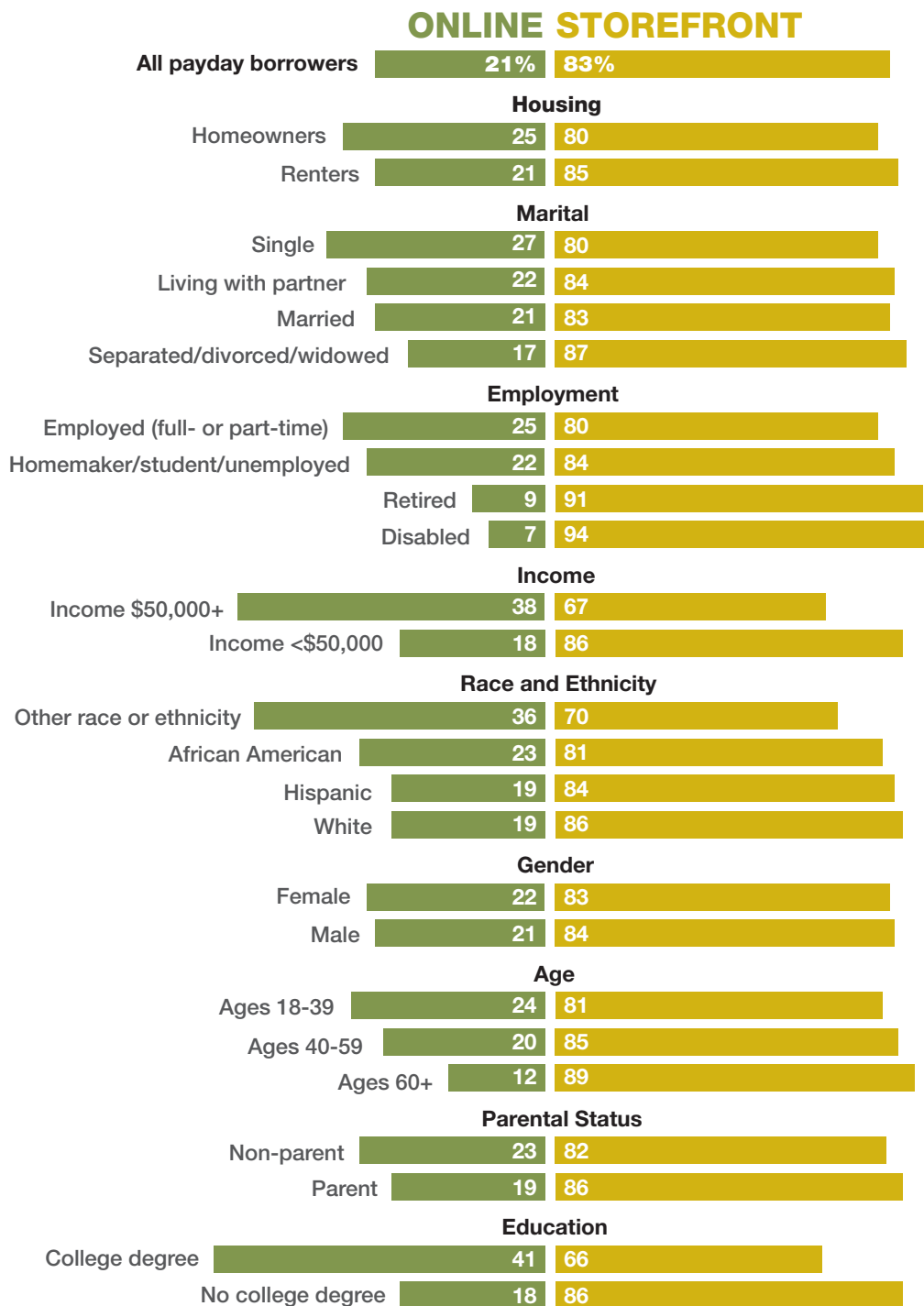
NOTES: In absolute terms, 4.0 percent of all survey respondents have used payday loans exclusively from storefronts, 0.9 percent have used payday loans exclusively from the Internet, 0.2 percent have used payday loans from both storefront locations and the Internet, and 0.4 percent of respondents have used payday loans that were neither storefront-based nor Internet-based. *Other sources may include banks, credit unions, or employers, among others.

Data represent percentage of payday borrowers who have used this type of provider in the past five years. Results are based on 33,576 interviews conducted from August 2011 through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

EXHIBIT 13:

METHOD OF ACQUIRING PAYDAY LOANS BY BORROWER DEMOGRAPHIC GROUP



NOTES: Numbers add to greater than 100 percent because of borrowers who have borrowed both from a storefront and online; they are counted in both columns and exist in greater numbers in some subgroups. The 7 percent of borrowers who have taken a payday loan from another source, such as a bank or employer, are excluded from this section, as are the 1 percent of borrowers who declined to state which method of borrowing they utilized. Results represent the percentage of payday loan borrowers in each category who report having used the specified type of payday loan in the past five years. Results are based on 33,576 interviews conducted from August through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

Conclusion

Payday loans are marketed as short-term credit products intended for emergency use, and they usually are depicted as a fix for an unexpected expense. However, Pew's first-of-its-kind survey reveals that seven in 10 borrowers use payday loans to deal with recurring expenses, while only one in six uses the loans for unexpected emergencies. Pew's analysis shows that the vast majority of borrowers use the loans on a long-term basis, not a temporary one. Thus it seems that the payday loan industry is selling a product that few people use as designed and that imposes debt that is consistently more costly and longer lasting than advertised. This circumstance is especially troubling because the conventional payday loan business model fundamentally relies on repeat usage—often, renewals by borrowers who are unable to repay the full loan amount upon their next payday—for its profitability.

Pew's research shows that certain demographic groups are more likely to use payday loans, including those without a four-year college degree; African Americans; those who rent rather than

own a home; people earning below \$40,000 annually; and those who are separated or divorced. However, it also clearly demonstrates that the payday loan is a product that crosses lines of gender, race and ethnicity, income, and education, touching most segments of society.

These findings raise serious concerns about payday lending, including whether a two-week product with an APR typically around 400 percent is a viable solution for people dealing with a chronic cash shortage.

To date, payday loans have been regulated primarily at the state level. Pew's findings show that states that have chosen to implement statutory controls on these products have been successful in realizing policy makers' goal of curbing payday lending, with 95 out of 100 would-be borrowers electing not to use payday loans rather than going online or finding payday loans elsewhere. These findings are particularly important as policy makers discuss what happens to payday borrowers when storefront lenders are not present because of regulatory action.

CONCLUSION

Moving forward, the recently created Consumer Financial Protection Bureau has the authority to regulate the payday loan market at the federal level. With this ongoing series, *Payday Lending in America*, and other research, Pew will present

in-depth findings to help identify the features of a safe and transparent marketplace for such consumer financial services, to inform efforts to protect consumers from harmful practices, and to promote safe and transparent small-dollar credit.

Methodology: Opinion Research

Findings in this report are based on a screening survey to measure incidence and identify payday loan borrowers, a full-length survey of people who answered that they had used a storefront payday loan in the past five years, and a series of 10 focus groups with small-loan borrowers, as described below.

Survey Methodology

Social Science Research Solutions (SSRS) Omnibus Survey

The Pew Safe Small-Dollar Loans Research Project contracted with SSRS to conduct the first-ever nationally representative in-depth telephone survey with payday loan borrowers about their loan usage. To identify and survey a low-incidence population such as payday loan borrowers, SSRS screened 1,000 to 2,000 adults per week on its regular omnibus survey, using random-digit-dialing (RDD) methodology, from August 2011 to April 2012. The term “omnibus” refers to a survey that includes questions on a variety of topics. This survey likely minimized payday loan borrowers’ denying their usage of this product, because the omnibus survey included mostly non-financial questions purchased by other clients, and the payday loan questions were

asked after other, less sensitive questions, giving interviewers a chance to establish a rapport with respondents.

If during the months of August through mid-December, respondents answered that they had used a payday loan, they were placed in a file to be recontacted later. Once the full-length survey was ready to field, in order to maximize participation, people who had used a payday loan were then given the full-length survey and paid an incentive of \$20 for participating. Because of their relative scarcity, online payday loan borrowers were given an incentive of \$35 for participating. Respondents were told about the compensation only after having indicated that they had used a payday loan. Further, online payday loan borrowers identified during the early months of screening were sent a letter with a five-dollar bill informing them that they would be recontacted to take the full-length survey. The second phase of the research involved recontacting all respondents who answered that they had used a payday loan, and immediately giving the full-length survey to anyone newly identified in the weekly omnibus survey as a payday loan borrower.

Sample and Interviewing

In the first phase of the survey, The Pew Safe Small-Dollar Loans Research Project purchased time on Social Science Research Solutions' omnibus survey, *EXCEL*, that covers the continental United States. Analysis of the incidence was conducted after 33,576 adults had been screened and answered a question about payday loan usage.

Sampling error for the omnibus survey of borrowers is +/- 0.24 percentage points. In the second phase, another 16,108 adults were screened in order to find a sufficient number of storefront payday loan, online payday loans, and auto title loan borrowers to complete a 20-minute survey about their usage and views. A total of 451 adults completed the full-length storefront payday loan survey, and two questions from that survey were included in this publication. Sampling error for the full-length survey of storefront payday loan borrowers is +/- 4.6 percentage points. In total, 49,684 adults were screened to complete the research.

EXCEL is a national weekly, dual-frame bilingual telephone survey. Each *EXCEL* survey consists of a minimum of 1,000 interviews, of which 300 interviews are completed with respondents on their cell phones and at least 30 are conducted in Spanish, ensuring unprecedented representation on an omnibus platform. Completes are representative of the U.S. population of adults 18 and older.

EXCEL uses a fully replicated, stratified, single-stage, RDD sample of telephone households, and randomly generated cell phones. Sample telephone numbers are computer-generated and loaded into online sample files accessed directly by the Computer-Assisted Telephone Interviewing (CATI) system. Within each sample household, a single respondent is randomly selected. Further details about *EXCEL* and its weighting are available at www.pewtrusts.org/small-loans.

Question Wording— Omnibus Survey

The data from the nationally representative omnibus survey of 33,576 adults are based on responses to the following questions. Wording for demographic and other questions is available at www.pewtrusts.org/small-loans.

Screening Phase (measuring incidence and compiling sample for callbacks):

- In the past five years, have you used payday loan or cash advance services, where you borrow money to be repaid out of your next paycheck?
- And was that physically through a store, or on the Internet?

Recontact Phase (calling back respondents who answered affirmatively, and identifying additional borrowers to take the full-length survey immediately):

- In the past five years, have you or has someone in your family used an in-person payday lending store or cash advance service?

Question Wording—Full-Length Survey of Storefront Payday Loan Borrowers

The data from the nationally representative, full-length survey of 451 storefront payday loan borrowers are based on responses to the following questions, which Pew designed with assistance from SSRS and Hart Research Associates. All other questions from this survey are being held for future release. The sample for this telephone survey was derived from the RDD omnibus survey.

Thinking back now to (that FIRST/the) time you took out a (online payday loan/payday loan/auto title loan), which of the following best describes what specifically you needed the money for? (READ LIST. ACCEPT ONE RESPONSE.)

(IF MORE THAN ONE, ASK:) Well, if you had to choose just one, which best describes what specifically you needed the money for?

- 1 To pay rent or a mortgage
- 2 To pay for food and groceries
- 3 To pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs

- 4 To pay an unexpected expense, such as a car repair or emergency medical expense
- 5 To pay for something special, such as a vacation, entertainment, or gifts
- 7 (DO NOT READ) Other (SPECIFY) _____
- D (DO NOT READ) Don't know
- R (DO NOT READ) Refused

I'm going to read you several options. For each, tell me whether you would use this option if you were short on cash and short-term loans of any kind no longer existed. How about (INSERT)?

- a. Borrow from family or friends
- b. Borrow from your employer
- c. Sell or pawn personal possessions
- d. Delay paying some bills
- e. Cut back on expenses such as food and clothing
- f. Take out a loan from a bank or credit union
- g. Use a credit card

Would you use this option or not?

- 1 Yes, would use
- 2 No, would not use
- D (DO NOT READ) Don't know
- R (DO NOT READ) Refused

Focus Group Methodology

On behalf of the Safe Small-Dollar Loans Research Project, Hart Research Associates and Public Opinion Strategies conducted eight two-hour focus groups, with two groups per location in New York City, New York; Chicago, Illinois; Birmingham, Alabama; and Manchester, New Hampshire. Those groups were conducted during weekday evenings from September 7, 2011 through September 19, 2011. The Safe Small-Dollar Loans Research Project conducted two additional groups in San Francisco, California, on November 16, 2011. All quotations come from these 10 focus groups.

EXHIBIT 14:

PAYDAY LOAN BORROWER DEMOGRAPHIC SNAPSHOT

Demographic	Percentage of All Payday Borrowers	Percentage of All American Adults
Renters	58	35
Homeowners	41	65
Single	24	31
Living with partner	14	N/A*
Married	33	50
Separated/divorced	25	13
Widowed	4	6
Full-time employed	49	59**
Part-time employed	13	
Unemployed	14	6
Disabled	8	N/A*
Retired	8	23
Homemaker	5	6
Student	3	5
Income <\$15,000	25	13
Income \$15,000 to under \$25,000	24	11
Income \$25,000 to under \$30,000	11	
Income \$30,000 to under \$40,000	13	25**
Income \$40,000 to under \$50,000	8	
Income \$50,000 to under \$75,000	10	19
Income \$75,000 to under \$100,000	5	12
Income \$100,000+	1	21
White (non-Hispanic)	55	64
African American (non-Hispanic)	23	12
Hispanic	14	16
Other race/ethnicity	6	8
Ages 18-24	12	13
Ages 25-29	16	9
Ages 30-34	12	9
Ages 35-39	11	9
Ages 40-44	13	9
Ages 45-49	11	10
Ages 50-54	10	10
Ages 55-59	5	8
Ages 60-64	5	7
Ages 65-69	3	5
Ages 70+	3	12
Parent	38	30
Non-parent	62	70
<High school	16	15
High school	38	29
Some college	31	30
College	11	16
Postgrad	3	9
Male	48	49
Female	52	51

This table describes the demographic characteristics of payday loan users overall, based on responses to Pew's survey. For example, 58 percent of all payday loan users rent (as opposed to own) their homes. For more on the survey, see the Methodology.

NOTES: All payday borrower data come from payday borrowers identified through 33,576 interviews conducted from August through December 2011 on behalf of Pew's Safe Small-Dollar Loans Research Project.

All comparative data except for employment status come from the Census Bureau's 2010 Decennial Census, the 2006–2010 American Community Survey 5-Year Estimates, and the 2008–2010 American Community Survey 3-Year Estimates. Employment status data come from a three-month average (March, April, and May 2012) of the NBC News/Wall Street Journal Survey, a nationally representative monthly telephone survey.

Data may not equal 100 percent due to rounding or because respondents declined to answer.

Marital status is based on residents 15 years of age and older. Educational attainment is based on adults 25 to 64 years of age. Other data, including Pew's survey data, represent adults 18 years of age and older.

*N/A Certain data were unavailable and/or are not comparable to Pew's survey.

**The Census uses slightly different income and employment categories in its survey.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012; U.S. Census Bureau; NBC News/Wall Street Journal Survey.

Modeling the Likelihood of Borrowing by Demographics

To test the relationship between specific demographics and payday loan usage, Pew developed a statistical model to analyze the predictive strength of each demographic while holding all others constant. For example, the model tests whether there is a strong relationship between renting a home and borrowing a payday loan, regardless of a borrower's other characteristics such as income. The following eight demographics were examined and compared with those people who were not in the selected category (e.g., those who have annual household incomes below \$40,000 are compared with those who have annual household incomes of \$40,000 or higher).

- Ages 25 to 34
- Annual household income below \$40,000
- Parents (with minor, financially dependent children)
- Some college education or less
- Renters
- African Americans
- Females
- Marital status is separated or divorced

It is important to reiterate that a limitation of our analysis is the time frame. While the survey recorded current demographics,

payday loan borrowers were asked about loans they had taken out in the past five years. We are not implying any causality, and it would be incorrect to assume that certain characteristics are necessarily causing an increase in payday loan usage. Rather, the findings show strong relationships between certain characteristics and payday loan usage, many of which previous studies also have identified.⁶⁸

In interpreting the logistic regression, the analysis focuses especially on the odds ratio, which shows the likelihood of payday loan usage based on the presence of a particular characteristic.

All relationships are significant at the 99 percent confidence level, with the exception of gender. This is not a surprising finding, as differences between males and females in Pew's initial analysis were slight and sometimes decreased when other variables were introduced. Thus, it is likely that the initial difference in usage by gender is being caused by other characteristics that correlate with gender, such as parental status or income.

Again, the baseline for payday loan usage is 5.5 percent across all adults. The figures resulting from this analysis describe only how much more likely it is that one type of person is to have used payday loans relative to another.

EXHIBIT 15:

LOGISTIC REGRESSION ANALYSIS OF LIKELIHOOD OF PAYDAY LOAN USAGE BY SELECT DEMOGRAPHICS

The percentages described in the body of the report as coming from a logistic regression model are derived from the Odds Ratio, and are calculated by subtracting 1 from the Odds Ratio. Thus, those who are Separated or Divorced, with an Odds Ratio of 2.034, are 103.4 percent more likely to have used a payday loan.

	Coefficient β	S.E. β	Wald's X^2	Odds Ratio
AfAm	0.717***	0.073	95.322	2.048
SepDiv	0.71***	0.072	96.729	2.034
NonCollege	0.6***	0.088	46.295	1.823
Income<\$40k	0.479***	0.071	45.167	1.615
Rent	0.452***	0.066	47.118	1.572
Parent	0.352***	0.065	29.246	1.422
Age25to34	0.349***	0.071	23.786	1.417
Female	-0.122**	0.062	3.928	0.885
Constant	-3.94	0.093	1781.417	0.019

NOTE: * p<.10, ** p <.05, and *** p<.01.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

Endnotes

1 David Burtzlaff and Brittany Groce. “Payday Loan Industry,” (2011). Stephens Inc.

2 Marketers of payday loans routinely characterize the products as short-term solutions that are not meant to be used for long periods of time. For example, the Financial Service Centers of America (FiSCA), an industry trade group, describes a payday advance as a “short-term loan to cover expenses between paydays.” “FiSCA Consumer Financial Services Factsheet,” available at http://www.fisca.org/Content/NavigationMenu/ConsumerCenter/ConsumerFactSheet/CONSUMERCENTER-ConsumerFactSheet_Final_withlogo.pdf (accessed March 30, 2012).

3 Pew’s research shows that the vast majority of borrowers report obtaining their loans from retail storefronts, which are non-bank, state-licensed entities that specialize in this form of lending. However, payday and similar types of loans are available online and from a growing number of banks. A small number of national and regional banks have developed small-dollar loan products that mimic or closely resemble conventional payday loans. These bank products are sometimes called “deposit advance” loans. The acting chairman of the Federal Deposit Insurance Corporation (FDIC) recently expressed “deep concern” about banks engaging in payday lending and announced an intention to investigate this trend. See FDIC letter at www.responsiblelending.org/payday-lending/policy-legislation/regulators/fdic-invests-bank-payday-lending.html.

4 In the fall of 2011, Pew contracted with research firms to hold focus groups of current and former payday loan borrowers. Participants told their stories and discussed a variety of questions related to their use of payday loans and other financial products. Deborah’s story and her

quotations are taken from one such focus group, which was conducted in New Hampshire (Deborah discussed experiences with storefront payday lenders that occurred prior to 2009, when New Hampshire enacted a 36 percent annual interest rate cap that effectively eliminated storefront payday lending in that state). “Deborah” is not the borrower’s real name. We have used a pseudonym to protect the participant’s privacy, but all other details are unaltered.

5 In 2011, the average payday loan at the nation’s largest payday lender—Advance America—was \$375, based on its annual report. Industry analyst Stephens Inc. uses Advance America as a proxy for the payday lending industry. Stephens Inc., “Payday Loan Industry,” (2011).

6 Fees from online lenders often are higher, averaging \$25 per \$100 borrowed per two weeks, or 652 percent APR. Consumer Federation of America, “CFA Survey of Online Payday Loan Websites,” (2011). See www.pewtrusts.org/small-loans for more information on state payday lending laws.

7 Although payday loans are not a new form of credit, the modern payday lending industry arose in the 1990s when a number of states modified their consumer lending laws, enacting special exceptions to interest rate caps and other laws that had traditionally regulated credit. See www.pewtrusts.org/small-loans for more information on the history of payday lending laws.

8 This calculation is based on a borrower using eight loans (the average number used annually according to state reports) for 18.2 days (the average duration of a payday loan, according to Advance America’s annual (10-K) report). Multiplying these figures indicates an average of 146 days of indebtedness per year.

9 Leslie Parrish and Uriah King, “Phantom Demand,” (Center for Responsible Lending, June 2009), <http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf>.

10 Oklahoma probably is not an outlier, as the average number of loans used by borrowers in Oklahoma per year (8.7) is similar to the average from other states, based on state reports. Calculations use data in “Oklahoma Trends in Deferred Deposit Lending, 2010,” www.ok.gov/okdocc/documents/2010_10_OK%20Trends_Final_Draft.pdf.

11 Payday and similar types of loans are available online and from a growing number of banks; however, Pew’s research shows that the vast majority of borrowers report obtaining their loans from retail storefronts, which are non-bank, state-licensed entities that specialize in this form of lending.

12 A study funded by the payday lending industry found that 78 percent of borrowers take out five or more payday loans each year; Gregory Elliehausen, “An Analysis of Consumers’ Use of Payday Loans,” *Financial Services Research Program Monograph* No. 41, (George Washington University, 2009). Another study by consumer advocacy group Center for Responsible Lending found that Oklahoma borrowers who use payday loans take out an average of nine loans in their first year of borrowing; Uriah King and Leslie Parrish, “Payday Loans, Inc.: Short on Credit, Long on Debt,” (Center for Responsible Lending, 2011). See also: “Report on the Business of Providing Deferred Presentment Service Transactions in Michigan,” (2007), www.michigan.gov/documents/cis/OFIS_DPST_REPORT_204749_7.pdf; and “Florida Trends in Deferred Presentment,” (2010), www.veritecs.com/Docs/2010_06_FL_Trends-UPDATED.pdf.

13 Robert DeYoung and Ronnie J. Phillips. “Payday Loan Pricing,” (Federal Reserve Bank of Kansas City Economic Research Department, 2009), www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf.

14 Stephens Inc., “Payday Loan Industry,” (2011).

15 Michael A. Stegman and Robert Faris, “Payday Lending: A Business Model that Encourages Chronic Borrowing,” *Economic Development Quarterly* (2003), www.ccc.unc.edu/abstracts/0203_Payday.php.

16 Our 5.5 percent payday loan usage number closely mirrors the 5 percent number found by the FINRA Foundation in their telephone survey conducted in 2009; Applied Research and Consulting, “Financial Capability in the United States,” prepared for the FINRA Investor Education Foundation, (2009). It is somewhat higher than the 3.5 percent of households who reported ever having used payday loans in the 2009 FDIC supplement to the Current Population Survey; “Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services,” (2010), www.fdic.gov/householdsurvey/AFS_Addendum.pdf. The number also is higher than the 3.9 percent of households who reported having used a payday loan in the past year in the Federal Reserve Board’s Survey of Consumer Finances, although that survey asked just about the past year, whereas our survey asked about the past five years; www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf. Earlier research has found and discussed evidence of known payday loan borrowers denying their usage of these loans in survey research: Gregory Elliehausen and Edward Lawrence, “Payday Advance Credit In America: An Analysis Of Customer Demand,” (Monograph #35, 2001); Dean Karlan and Jonathan Zinman, “Lying About Borrowing,” *Journal of the European Economic Association Papers and Proceedings* (2007); and Applied Management & Planning Group and Analytic Focus, “2007 Department of Corporations Payday Loan Study,” (2008). To minimize underreporting in this survey, borrowers were asked about payday loan usage as part of an omnibus poll that covered mostly non-financial topics. In addition, the questions about payday loans were asked well into the survey, giving the interviewer a chance to establish a rapport with respondents before asking about this relatively sensitive issue.

17 The margin of error for payday loan usage in the omnibus survey is +/-0.2 percentage points. Margins of error for subgroups are included on our website at www.pewtrusts.org/small-loans.

18 We calculate the number of unique payday loan borrowers in 2010 using three different methods that all point toward roughly 12 million people having used payday loans that year. Based on our survey data, 18 percent of traditional payday loan borrowers (storefront or online, not other sources such as employers or banks) are borrowing exclusively online. All of these calculations refer to storefront data and then treat that population as 82 percent of the universe of payday loan borrowers, adding in the online-only borrowers afterwards. All of these calculations also utilize the Stephens estimate that there were 19,700 payday lending stores in the U.S. in 2010. Numbers have been rounded to avoid giving the impression that these calculations are precise, because they all involve reliance on data that are either incomplete or from a handful of states. Thus, each of these calculations is likely flawed because of data limitations, but the results cluster around, and average, 12 million borrowers.

Method 1: Estimating transactions per store, multiplying by the number of stores, and dividing by the number of loans per borrower.

We used the data from the 2010 published state payday loan reports that include number of transactions and number of storefronts: California, Florida, Oklahoma, and Washington. States that had reports from previous years but not reports based on 2010 data were reviewed but not included, such as Illinois, Michigan, North Dakota, and Virginia. Dividing the number of payday loan transactions by the number of payday loan stores yields 4,236 payday loans per store in 2010. Multiplying that figure by 19,700 yields 83.4 million loans. Dividing this figure by the eight loans per borrower figure, which is the average in the state reports, implies just over 10.4 million borrowers. Adding back in the 18 percent of borrowers who are borrowing only online adds to roughly 12.7 million.

Method 2: Using the state reports to record or derive the number of unique borrowers in each state, and dividing by the number of stores in those states to create a borrowers per store ratio. This calculation, based on the three

states with published 2010 data on unique borrowers (Florida, Oklahoma, and Washington), yields a figure of approximately 486 unique borrowers per store. We then multiply that ratio by the number of stores in the country to reach roughly 9.6 million. Adding back in the 18 percent of borrowers who are borrowing only online adds to roughly 11.7 million.

Method 3: Recording the number of unique borrowers in the reported states, dividing that figure by the adult population to determine a usage rate, and then multiplying that figure by the population in all of the states where payday loans are allowed. Using this method gives us a usage rate of 4.8 percent in the states that publish detailed reports. Seventy-one percent of the population lives in states that have payday loan stores, while 29 percent do not. We multiply the 4.8 percent by the 163 million adults who live in states with stores, and then multiply the other 66 million adults by 1.2 percent, because our survey data show that storefront usage in restrictive states is one-fourth the level that it is in other states. This calculation suggests 8.7 million storefront borrowers, somewhat lower than the other methods. One reason for this disparity may be that most of the highest-usage states do not publish reports, so the 4.8 percent usage figure we derived may be slightly lower than the true usage figure in nonrestrictive states. Adding back in the 18 percent of borrowers who are only online would yield an estimate of 10.6 million borrowers per year.

19 This figure of 12 million borrowers is lower than some earlier estimates of payday loan usage, which may be partially explained by the fact that payday lenders have left some states because of regulations, and by high unemployment (given that a regular income stream is a prerequisite for obtaining a payday loan). Social insurance programs for individuals out of work also may provide an income stream on which a payday loan can be secured. Nonetheless, the high rate of unemployment in recent years and particularly the unprecedented rates of the unemployed who have been out of work for an extended period of time likely have a dampening effect on overall payday loan usage. The estimate of 12 million borrowers refers only to those using payday loans from storefronts or the Internet, not those using payday loans from banks, employers, or other sources.

20 Amanda Logan and Christian E. Weller, “Who Borrows from Payday Lenders?” (2009); Gregory Elliehausen, “An Analysis of Consumers’ Use of Payday Loans,” *Financial Services Research Program*, Monograph #41. (2009).

21 This figure is the average number of loans used based on the 2010 state reports from Florida, Oklahoma, and Washington. It also is consistent with data released by other states that either lack a database or did not publish a 2010 report, such as Michigan’s 2007 data, Virginia’s 2008 data, and California’s data from 2006-2010.

22 “Florida Trends in Deferred Presentment,” Program Status Report, (May 2010), www.veritecs.com/Docs/2010_06_FL_Trends-UPDATED.pdf.

23 In 2011, the average payday loan at the nation’s largest payday lender—Advance America—was \$375, based on its annual (10-K) report. Industry analyst Stephens Inc., uses Advance America as a proxy for the payday lending industry. Stephens Inc. “Payday Loan Industry,” (2011).

24 This figure is based on using the average loan size (\$375 in Advance America’s 2011 Annual Report), the average number of times (eight—based on data in state reports) in a year. Three quarters of these are storefront loans, charging an average of \$55 per loan, based on the average fee disclosed in Advance America’s 2011 Annual Report, and similar fees in the other publicly traded lenders’ annual reports. Roughly one-quarter are online loans, charging an average of \$95 for an equivalent loan, based on the rates cited by industry analyst Stephens Inc., in its 2011 report. Six fees of \$55 and two fees of \$95 yield our estimate of \$520 spent by each borrower. If all eight loans came from a storefront, this figure would be \$440, while if all eight loans were obtained online, the figure would rise to \$760. These calculations assume the borrower does not incur any extra fees. The Center for Responsible Lending has made similar calculations in its publications, finding that a typical borrower pays back \$793 on a \$325 loan, spending \$468 on interest. This calculation was based on storefront lending and was made before online lending had expanded to its present level with higher interest rates charged. See Uriah King, Leslie Parrish, and Ozlem Tanik. “Financial Quicksand: Payday Lending Sinks Borrowers in Debt with \$4.2 Billion in Predatory Fees Every Year,” (November 2006), [http://](http://www.responsiblelending.org/payday-lending/research-analysis/financial-quicksand-payday-lending-sinks-borrowers-in-debt-with-4-2-billion-in-predatory-fees-every-year.html)

www.responsiblelending.org/payday-lending/research-analysis/financial-quicksand-payday-lending-sinks-borrowers-in-debt-with-4-2-billion-in-predatory-fees-every-year.html.

25 Robert DeYoung and Ronnie J. Phillips, “Payday Loan Pricing,” (Federal Reserve Bank of Kansas City Economic Research Department, 2009), www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf.

26 Previous surveys also have found that a substantial percentage of borrowers use payday loans to cover regular household expenses and other nonemergency needs. A 2007 study conducted for the California Department of Corporations reports that half of borrowers (50.2 percent) selected “pay other bills” as their reason for using a payday loan (an additional 22.3 percent selected “groceries/necessary household goods”). The “pay other bills” category is separate from groceries/necessary household goods, emergency situations, car repairs, and medical services. While categories differ slightly between each survey, both surveys separate regular expenses from food/groceries, emergencies, car repairs, and other, therefore providing a comparable benchmark for usage; Applied Management Planning Group and Analytic Focus, “2007 Department of Corporations Payday Loan Study,” (2008), www.corp.ca.gov/Laws/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf. Also, the Federal Reserve’s 2010 Survey of Consumer Finances (SCF), which asks about the most recent payday loan, found 42.4 percent of borrowers indicated it was for an emergency “and similar urgent needs or a lack of other options.” The difference in overall incidence (3.9 percent payday usage in the 2010 survey) between Pew’s results and results from the SCF may be explained by differences in time period queried (five-year versus one-year time span). The large difference in reason for usage in the “emergency” category is likely a result of survey wording, or including “a lack of other options” in the SCF question, which makes its emergency category far broader. Pew’s survey question was seeking to capture something different than the SCF, to ascertain the purpose of the loan (“emergency”), without attempting to combine that with why the borrower chose a payday loan provider (“lack of other options”). A borrower may have both a regular

ENDNOTES

expense and a lack of other options, or an emergency expense but multiple options, so we did not seek to pair the reason for a loan with the reason for choosing a payday loan provider. SCF data are available at <http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf>.

27 The industry's largest trade association, Community Financial Services Association of America (CFSA), as well as many payday loan companies, note on their websites and in advertisements that payday loans are an expensive form of credit and intended for short-term or emergency use, and not as long-term solutions. For examples, see websites for CFSA (<http://cfsaa.com>), QC Holdings (www.QCHoldings.com), and Cash America (www.cashamerica.com/loanoptions/cashadvances.aspx). See also: Gregory Elliehausen and Edward C. Lawrence, "Payday Advance Credit in America: An Analysis of Customer Demand," (April 2001), 37, 40; and Gregory Elliehausen, "An Analysis of Consumers' Use of Payday Loans," (January 2009). "While payday loans might rarely if ever make sense for financing household investment directly, payday loans may provide rationed borrowers with a source of emergency funds that allows greater levels of debt-financed investment," as quoted from www.cfsaa.com/portals/0/RelatedContent/Attachments/GWUAnalysis_01-2009.pdf.

28 See endnote 12.

29 Parrish and King, "Phantom Demand," (2009).

30 The exact figure is 18.2 days, and comes from the 2011 Annual Report (10-K) filed with the Securities and Exchange Commission by the largest storefront payday lender, Advance America.

31 For example, the website of Check Into Cash, one of the largest payday lenders, notes that a payday loan "is not intended to be used as a long-term budget solution." Available at: <http://checkintocash.com/faq/how-often-do-most-people-use-cash-advance-services/>.

32 The industry's largest trade association, Community Financial Services Association of America (CFSA), provides a detailed overview of the industry and product on its website (<http://cfsaa.com>).

33 Quoted from Advance America direct mail piece "Your Line's Slowed. Your Bills Haven't," (2011).

34 Quoted from QC Holdings website, www.QCHoldings.com.

35 These estimates vary somewhat based on the law, and especially the minimum loan term, in the state analyzed, but the most detailed analysis is the Center for Responsible Lending's finding of 212 days of indebtedness for Oklahoma borrowers in *Payday Loans, Inc.*

36 Robert DeYoung and Ronnie J. Phillips, "Payday Loan Pricing," (Federal Reserve Bank of Kansas City Economic Research Department, 2009), www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf.

37 James A. Ovenden, "Quarterly Earnings Call, Advance America," Q2, (2011), <http://seekingalpha.com/article/283283-advance-america-cash-advance-centers-ceo-discusses-q2-2011-results-earnings-call-transcript>.

38 Stephens Inc., "Payday Loan Industry," (2011).

39 Community Financial Services Association of America (CFSA) Member Best Practices, <http://cfsaa.com/cfsa-member-best-practices.aspx>.

40 California Department of Corporations "Table 7: Amount of Referral Bonus Offered," www.corp.ca.gov/Laws/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf.

41 Information from CashNetUSA website, www.cashnetusa.com/rewards.html.

42 UNC Center for Community Capital, "North Carolina Consumers After Payday Lending," (2007), www.ccc.unc.edu/documents/NC_After_Payday.pdf.

43 Applied Management & Planning Group and Analytic Focus, "2007 Department of Corporations Payday Loan Study," (2008), www.corp.ca.gov/Laws/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf.

44 Texas Appleseed, "Short-term Cash, Long-term Debt: The Impact of Unregulated Lending in Texas," (2009), www.appleseednetwork.org/Portals/0/Documents/Publications/Center%20Pubs/TX%20Payday%20Lending.pdf.

45 Missouri Division of Finance. "Report to General Assembly on Survey of Payday Lenders," (2011), <http://finance.mo.gov/consumercredit/documents/2011PaydayLenderSurvey.pdf>.

46 Subsequent to passing legislation authorizing payday lending, Arizona, Arkansas, the District of Columbia, Georgia, Montana, North Carolina, and New Hampshire reimposed double-digit usury caps on deferred presentment transactions, allowed the authorizing legislation to expire, or prohibited the transaction. Colorado, Florida, Maine, Minnesota, Oregon, Rhode Island, Virginia, and Washington have lowered permissible loan fees while retaining triple-digit annual percentage rates, implemented structural requirements to permit borrowers multiple pay periods to repay their loans, or limited to the single digits the number of payday loans per borrower per year. Ohio passed legislation and also passed a ballot initiative restricting interest on payday loans to 28 percent APR, but payday lending has continued with effective loan terms and APRs that often are similar to those before the law change.

47 Stephens Inc., “Payday Loan Industry,” (2011).

48 Steven Graves and Christopher Peterson, “Usury Law and the Christian Right: Faith-Based Political Power and the Geography of American Payday Loan Regulation,” *Catholic University Law Review*, Vol. 57, 2008: 637.

49 Robert B. Avery and Katherine A. Samolyk, “Payday Loans versus Pawn Shops: The Effects of Loan Fee Limits on Household Use,” (preliminary draft, 2011).

50 For example, “House Mulls Reviving Payday Loans,” *New Hampshire Business Review*, www.nhbr.com/businessnewsstatenews/935663-257/house-panel-mulls-reviving-payday-loans.html.

51 Consumer Federation of America, “CFA Survey of Online Payday Loan Websites,” (2011).

52 “Analysis: U.S. Payday Lenders Point Fingers to Blunt Crackdown,” *Reuters*, (January 20, 2012), www.reuters.com/article/2012/01/20/us-financial-regulation-payday-idUSTRE80I04R20120120.

53 This section includes results reported to two decimal places, but this reporting is not intended to suggest a greater level of precision. Rather, two decimal places are used in order to avoid inaccurate calculations between groupings that could be caused by rounding to one decimal place or the nearest integer. Even with these large sample

sizes, there is a degree of sampling error. It is possible, therefore, that the actual number of would-be storefront borrowers who are going online is slightly lower or higher, because the results reported are based on survey research, and thus have a margin of error. These figures are fairly consistent with estimates from Stephens Inc., that roughly one-quarter of payday loan volume is online. Our survey data suggest just under one-quarter of traditional (storefront or online, but not “other”) payday loan borrowers have borrowed online. Note that the 7 percent “other” finding may include products from banks or employers but should not be taken as a general estimate of bank payday or “deposit advance” lending.

54 This finding that storefront payday borrowing is lower in Restrictive states is consistent with prior research. Examples include: Applied Research & Consulting, “Financial Capability in the United States,” (2009); and “Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services,” (2010), www.fdic.gov/householdsurvey/AFS_Addendum.pdf.

55 These figures are based on our analysis of state-by-state storefront data from Graves and Peterson, “Usury Law and the Christian Right,” (2008). Peterson and Graves’ data were used because of the level of detail, recording individual storefronts by ZIP code. The same calculations using Stephens’ 2006 data yield similar results, with 10.71 storefronts per 100,000 residents in now-Restrictive states, and 11.50 storefronts per 100,000 residents in now-Permissive states, or 6.9 percent fewer. To calculate storefronts per capita, we obtained population estimates from the 2006 American Community Survey (available at www.factfinder2.census.gov). We selected 2006 because none of these states had begun to change their regulatory structure yet, and detailed data on storefronts by state were available. Restrictive states either cap payday loan interest rates at double-digit APRs or prohibit deferred presentment transactions. Permissive states either do not cap interest rates or tend to cap them at 391 percent APR or higher, and generally allow the entire loan to be due on a borrower’s next payday. Alaska and Hawaii are included in this example and in all exercises that do not rely on the survey data.

56 Similarly, there is little difference in Internet access between Restrictive and Permissive states. Data from the U.S. Census Bureau's 2012 Statistical Abstract (Table 1156) show that at least 70 percent of people in every state report having Internet access. In both the average Permissive state and average Restrictive state, exactly 80 percent of residents report having Internet access either inside or outside the home. If this calculation is limited to in-home access, in the average Restrictive state 72 percent of residents have Internet access, compared with 71 percent in the average Permissive state. Data available at www.census.gov/compendia/statab/cats/information_communications/internet_publishing_and_broadcasting_and_internet_usage.html.

57 For example, the North Carolina Commissioner of Banks report using 1999 data notes more than 2.9 million payday loan transactions were made in the state, www.nccob.gov/Public/docs/News/Pub%20And%20Research/Check%20Cashers%20Report%20to%20Gen%20Assembly.pdf. Or for a discussion of payday lending in North Carolina and Georgia, including figures on stores in those states operated by major national lenders, see Donald P. Morgan and Michael R. Strain, "Payday Holiday: How Households Fare after Payday Credit Bans," (2007).

58 During the period of inquiry in our survey, the five years prior to the survey being administered, or roughly late 2006 to early 2012, 10 states implemented substantial changes to the laws regulating payday lending in their state. Five jurisdictions—Arizona, Arkansas, the District of Columbia, Montana, and New Hampshire—became newly Restrictive between January 2008 and January 2011. In Arizona, the legislation authorizing payday lending in the state expired; the other four jurisdictions implemented double-digit APR rate caps. Five additional states moved into the Hybrid category in recent years. Colorado and Virginia implemented longer minimum loan terms, among other regulations, and Rhode Island lowered the fees that may be charged for a payday loan. Washington State capped at eight the number of loans borrowers may take out each year. Oregon reduced allowable fees and now requires a 31-day minimum loan term.

59 Signe-Mary McKernan, Caroline Ratcliffe, and Daniel Kuehn. "Prohibitions, Price Caps, and Disclosures: A Look at State Policies and Alternative Financial Product Use" Urban Institute, (November 2010).

60 This publication does not present data related to the issue of whether borrowers could be substituting other forms of credit for storefront payday loans.

61 For example, "House Mulls Reviving Payday Loans," *New Hampshire Business Review*, www.nhbr.com/businessnewsstatenews/935663-257/house-panel-mulls-reviving-payday-loans.html.

62 For example, Alexandra Alper, "Complaints vs. Banks Drop, Payday Lenders Rise," *Reuters*, (March 1, 2012), www.reuters.com/article/2012/03/01/financialregulation-bbb-idUSL2E8E1FMB20120301.

63 The Better Business Bureau reports that complaints against payday lenders increased 159 percent from 2010 to 2011. Figure available at: <http://tulsa.bbb.org/article/Complaints-Down-But-Huge-Jump-in-Inquiries-Means-Shoppers-Are-Doing-Their-Homework-33509>.

64 "Washington State Department of Financial Institutions, 2010 Payday Lending Report," www.dfi.wa.gov/cs/pdf/2010-payday-lending-report.pdf.

65 Data obtained by Pew in telephone calls and e-mails with state regulators.

66 These figures are fairly consistent with estimates from Stephens Inc., that roughly one-quarter of payday loan volume is online. Our survey data suggest just under one-quarter of traditional (storefront or online, but not "other") payday loan borrowers have borrowed online. Note that the 7 percent "other" finding may include products from banks or employers but should not be taken as a general estimate of bank payday or "deposit advance" lending.

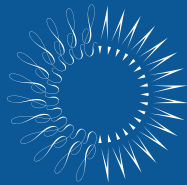
67 "Digital Differences," Pew Internet & American Life Project, (2012), www.pewinternet.org/~media/Files/Reports/2012/PIP_Digital_differences_041312.pdf.

68 McKernan, Ratcliffe, and Kuehn. "Prohibitions, Price Caps, and Disclosures," (2010).

The Safe Small-Dollar Loans Research Project focuses on small-dollar credit products such as payday and automobile title loans, as well as emerging alternatives. The project works to find safe and transparent solutions to meet consumers' immediate financial needs.

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

www.pewtrusts.org/small-loans



THE
PEW
CHARITABLE TRUSTS

STAY CONNECTED ▶ pewstates.org

[t](https://twitter.com/pewstates) twitter.com/pewstates [You Tube](https://www.youtube.com/pew) [youtube.com/pew](https://www.youtube.com/pew) [f](https://www.facebook.com/pewtrusts) [facebook.com/pewtrusts](https://www.facebook.com/pewtrusts)

pewstates.org/newsletter